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ESG Year in Review - 2023

February 7, 2024

SHENKMAN ESG CREDIT INSIGHTS®

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Our ESG Annual Report Includes:

In this publication, we highlight our views on some of the key 2023 trends in ESG investing as well as advancements at Shenkman Capital around the evolving nature of ESG and DEI.

We address the following topics:

- Observations on the developing ESG industry
- ESG integration in the investment process
- Some ESG improvements at Shenkman
- Strides we have made in DEI

2023 ESG Market Trends

The Evolution of ESG in 2023: Politics, Regulation and Reporting, and Ratings

Before COVID lockdowns and the invasion of Ukraine, ESG investing seemed to be on a path toward developing into an elitist club. To gain entrance, one had to adhere to strict rules laid out by regulatory agencies and third party, for hire rating organizations. It seemed like certain goals had to be met, regardless of the costs, if one wanted to be admitted. To make matters more complex and costly, these unyielding rules would vary by geography. In 2023, we saw the continued evolution of ESG investing into more of a free market. This marketplace is allowing for different paths to be pursued, where investors and allocators can choose to balance their own individual goals and priorities.

As a result, investment managers should be cognizant of these different approaches and be flexible to meet clients' needs. In our view, having robust internal resources that can focus on varied approaches to ESG is a necessity. This involves understanding clients' preferences and goals while still understanding the risks that environmental, social, and governance issues can create for a company chosen for investment.

Divergence of Local Practices

As the approaches to ESG have become more diverse in 2023, one of the most obvious themes is that ESG practices have become more localized. Both national and regional differences in methodology have emerged. We have seen non-US asset owners expecting more ESG integration, facing more reporting requirements, and responding to regulated negative screens -- while being wary of any "greenwashing" efforts. Meanwhile, there are pockets of investors in the US that now expect investment decisions to be made prioritizing only financial materiality.

While the use of negative screening is still widespread, it needs to be tailored to suit the needs of individual organizations. Despite these trends, we believe that overall, the general acceptance of ESG integration as a risk mitigation tool in fixed income continues.

Diverse Direction of Regulation and Reporting

In reviewing some of the regulatory developments of the year, one can see the diverse paths that are developing in different geographies – in both regulatory proposals and efforts to push back on some broader national regulations.

According to a Harvard Law School Forum report, at US state-level public retirement systems, much of the focus has been on "-prohibiting the consideration of ESG factors when investing…". The report cited cases in several states where rules like this have been enacted or proposed.[1]

As further evidence of push-back against ESG rules, 25 state attorney generals in the US filed a suit claiming they were negatively affected by a Department of Labor rule that would permit fiduciaries to apply environmental, social, and governance investment strategies when selecting investments for ERISA retirement plans. The 2023 rule permits ESG analysis in retirement plans but does not require it. "Collateral benefits" related to ESG can be considered as a tiebreaker between two investments, but only if they would both equally serve the interests of the plan.[2]

Conversely, governments and NGOs in Europe, the US, and elsewhere have been pushing an ESG agenda in various ways. In Europe, these requirements have been escalating, where the Sustainable Finance Disclosure Regulation ("SFDR") has increased regulation on financial institutions reporting their ESG policies, risks, and impacts for their companies as well as their products.[3] On July 31, the European Commission adopted new European Sustainability Reporting Standards ("ESRS"). The ESRS, going into effect in January 2024, will standardize how companies within the European Union report climate change and ESG related actions.[4] In efforts to prevent greenwashing, European officials rolled out proposals aimed at forcing companies to support, with scientific evidence, the environmental and sustainability claims that they make on consumer products.[5] This new reporting for corporations will cost both time and money to comply. In the US, the SEC adopted a new rule cracking down on greenwashing by US investment funds. Focused on the old SEC "Name Rule," the update requires that 80% of a fund's portfolio matches the asset advertised by its name.[6] Additionally, 2023 was a year when numerous environmental tax breaks came into effect in the US.[7]

The reporting environment in the US is still in flux. Unlike Europe, we see that the SEC's plans and timing for ESG reporting enhancements are unclear. The proposed SEC climate disclosure rule would require companies to integrate climate-related information into their regular SEC reporting. Such information would include material climate impacts, greenhouse gas emissions and targets, and transition plans. Its fate is unclear, especially heading into a presidential election year. More disclosure would be welcome by many, as the information is not currently provided to asset owners. Market participants then rely on costly outside vendors to create estimates of dubious precision. Additionally, a standardization of publicly available information would be welcome.

California took matters into their own hands passing climate bills in October 2023. The resulting legislation will require companies that have over $1billion in revenue and do business in California to report emissions and climate risks starting in 2026. Interestingly, unlike federal initiatives, the California regulation includes private companies. The law is still subject to rulemaking and any legal challenges could ultimately derail the efforts.

[1] https://corpgov.law.harvard.edu/2023/03/11/esg-battlegrounds-how-the-states-are-shaping-the-regulatory-landscape-in-the-u-s/

[2] https://www.plansponsor.com/25-states-bring-suit-against-esg-regulation/

[3] https://www.onetrust.com/blog/ultimate-guide-to-eu-csrd-esg-regulation-for-businesses/#:~:text=The%20SFDR%20ESG%20regulation%20focuses,(company)%20and%20product%20level

[4] https://www.forbes.com/sites/jonmcgowan/2023/08/02/european-union-approves-climate-esg-reporting-standards/?sh=5333e6513f42

[5] https://www.wsj.com/articles/greenwashing-targeted-in-latest-european-regulatory-push-13fbac3

[6] https://www.reuters.com/sustainability/us-sec-poised-ban-deceptive-esg-growth-fund-labels-2023-09-20/

[7] https://www.businessinsider.com/new-environmental-subsidies-tax-breaks-climate-bill-solar-electric-vehicles-2023-1

Away from climate-related issues, there are also efforts to improve disclosures on social related themes. Having gained more prominence in the last couple of years, there are efforts to improve reporting on cybersecurity risks, corporate board diversity, and standardization of quantitative work force metrics. We believe cybersecurity is becoming more of a risk factor based on our credit reviews.

We believe that ESG regulation and reporting are moving into a new phase. After a flurry of new regulations and frustration over the lack of available information, we believe standardization of public reporting is slowly moving toward fruition. We believe movement toward consistency in disclosure rules would be a positive and lead to less reliance on third party ratings that often depend on "extrapolation and estimation." This should allow for more independent analysis. However, we have no doubt that with high costs and politics involved, the road will be bumpy.

Ratings Agencies – Retrenching and Rollbacks

With the increased focus on ESG in the last decade, several companies leapt in to exploit the ESG enthusiasm and tried to quantify and rate ESG factors, despite the subjective nature of many of these issues. 2023 saw some high-profile roll backs in these approaches that may have been instituted too rapidly. We believe this has added some confusion to ESG and highlights the increasing diversity of approaches to ESG investing.

In 2023, MSCI decided to eliminate an "adjustment factor" in its ESG ratings for investment funds. This factor reportedly gave credit for investments in companies with "improving ESG scores". This change trigged a downgrade of about 31,000 funds. MSCI was quoted as saying it was a one-time recalibration.[8] However, it still raises into question the level of subjectivity in these "ratings" and raises questions whether the level of complexity was not fully considered in an attempt to quickly capitalize on a new market. One should consider that this may have impacted some investment decisions.

Separately, rating agency S&P Global stopped assigning ESG scores to corporate issuers in 2023. They started these ratings in 2021, using a 1-5 scale for each category. In the change, they stated "...the dedicated analytical narrative paragraphs in our credit reports are most effective in providing detail and transparency on ESG credit factors." This highlights a shift to a more flexible and subjective approach that we have discussed previously and a shift to allowing greater diversity in approaches to ESG. Moody's still uses a 1-5 scale.[9] Again, it is unclear how the prior policy may have impacted investment decisions and possibly redirected capital for some investors.

While not directly related to ratings, there was also a high-profile shift in a corporate carbon reduction plan. This shift shows how complex some of these issues can be. This involved Lego A/S, globally known for its eponymously named product. This private company made a major public announcement in 2021 to move away from oil-based plastics for its famous bricks. In 2023, it announced a cancellation of the plan as it found that after further analysis, using the recycled product that it proposed "...would have led to higher carbon emissions over the products lifetime...". Importantly, the company said it was still on track to meet its 2032 targets to reduce emissions by 37% from 2019 levels.[10]

[8] https://www.investmentnews.com/esg/news/esg-downgrades-show-complicated-nature-of-sustainability-ratings-236117#:~:text=MSCI%20announced%20an%20adjustment%20that,scores%20on%20about%2031%2C000%20funds.&text=MSCI's%20pending%20downgrades%20to%20the,is%20and%20isn't%20green

[9] https://www.ft.com/content/9426937e-28d3-4846-8440-c30583524d4c

[10] https://www.ft.com/content/6cad1883-f87a-471d-9688-c1a3c5a0b7dc

Shenkman Capital and ESG Investing

Our Approach to ESG

As described above, managing varying investor interests did not become any easier in 2023. However, our approach to ESG integration and customer-driven SRI integration continues to be a successful one in our opinion. We continue to believe that integrating ESG considerations into the investment process in a systematic and disciplined way is critical to making successful investing decisions.

The developments outlined below are intended to support Shenkman's commitment to ESG investing.

Firmwide Negative Screening Not Applied

As we have maintained for some time, we do not believe that a firm-wide approach to negative screening is appropriate. We trust that decisions on SRI screening (negative screens) is best left to investor preferences, which often vary. Many of our clients have requested such screens and we have a long history of providing this capability through implementation of restricted lists, industry exclusions, or our own ability to determine revenue exposures. We look forward to continuing to engage with our client base in 2024 to meet their individual goals.

Updated ESG Policy

The firm adopted its first formal ESG Policy in April 2017, which summarized our long history of integrating any risk factors (including ESG factors) that could impact the value of a particular investment. Since then, we have updated the policy periodically, with that last update completed in January 2023. The policy was refreshed to reflect enhancements to our ESG processes and includes reference to the CDP (formerly the Carbon Disclosure Project) and TCFD (Task Force on Climate-related Financial Disclosures), two organizations that Shenkman joined in the last two years. Additionally, the updated ESG Policy includes new sections on our ESG reporting as well as Shenkman's Corporate Responsibility efforts. Shenkman's current ESG Policy can be found here: https://www.shenkmancapital.com/PDF/ESG_Policy.pdf

ESG Issuance in the Past Year

As part of our regular capital market activities, we monitor the issuance of ESG bonds in the high yield market. US high yield ESG bond market highlights are below:

- 7 ESG tranches were issued from 6 issuers in 2023. Tranches were down 30% from 2022.
- $3.3bn of ESG issuance in 2023 was down 47% year-over-year.
- 71% of issuance had green/social/sustainable as the "use of proceeds" versus 29% that were sustainably linked.
- In 2023, ESG issuance as a share of both the US investment grade and high yield markets declined versus 2022.

Despite much promise, overall global corporate bond ESG issuance has declined, driven by a decline in US dollar issuance. As the data shows, high yield ESG bond issuance continues, but remains a relatively small percentage of the overall market. Despite what seems to be progress made on clarification of KPIs and frameworks, perhaps the political environment in the US is taking its toll. Particularly, we wonder if the return expectations of issuers and investors might be at cross purposes. When looking at green issuance, our analysts will review the ESG elements, however, the investment from a credit and relative value perspective is still subject to our traditional process and must stand on its own merits.

Portfolio Carbon Footprint Reporting

In the last year, we have increasingly received requests from asset owners and consultants to provide the carbon footprint and other environment metrics for their portfolios. Such metrics typically include Total Greenhouse Gas ("GHG") Emissions, Carbon Footprints, and Weighted Average Carbon Intensity ("WACI"). As we have done in the past, we use data from CDP, to the extent such data is available, to satisfy these requests.

In 2023, CDP reported another year of record disclosures. Companies reporting on the CDP climate questionnaire increased 25% from 2022. Coverage of the S&P 500 continued to grow, with 86% reporting climate information up from 82% last year. However, with the cost related to providing this disclosure, there is a bias toward larger companies, with only 40% of the MSCI Small Cap index reporting in 2023.[11] Challenges accessing data for companies in the high yield space, particularly as many are privately held, persist.

We continue to review outside vendors for this data although we are not sure that imprecise estimates of carbon are helpful, and coverage of private companies continues to be an issue. We encourage further disclosure and applaud efforts in the industry (e.g., LSTA) to improve disclosure and consistency. We are committed to providing this information to clients that find it beneficial and seeking out and encouraging the best ways to do so.

ESG Checklist Data

Our proprietary ESG checklist highlights what we view to be key potential ESG issues around a company that is being analyzed and is included in our analyst credit report. The ESG Checklist ensures that key ESG issues are discussed as part of the investment process. A matrix is used to guide the analysts in filling out this checklist. Based on the results of this checklist, each company is placed in one of four ESG tiers, with Tier 1 credits being the highest ESG quality. The ESG Tiers are stored in our internal database and can be used to inform portfolio management decisions. Table I below is an ESG Tier report for a representative portfolio.

[11] https://www.cdp.net/en/companies/cdp-2023-disclosure-data-factsheet#msdynttrid=yDxfRPVXqgf_rLrvPKEvLwiU4mLh9qZlXFF03s0QyoA

TABLE I: SHENKMAN'S ESG TIERS FOR AN INDICATIVE PORTFOLIO*

		12/31/2023	12/31/2022	12/31/2021
ESG Tier Weight				
	Tier 1	48.3%	60.2%	61.7%
	Tier 2	48.2%	36.6%	36.0%
	Tier 3	0.5%	0.9%	0.5%
Average OAS				
	Tier 1	266	418	282
	Tier 2	255	427	326
	Tier 3	175	336	529

*The information set forth herein for the Representative Account represents information compiled from an actual representative client account that employs Shenkman's High Yield Bond strategy and is provided for informational purposes only. The actual characteristics of another account or fund may vary significantly from the information provided; past performance is not a guarantee of future results.

As one can see from the chart above, the indicative portfolio saw a lower weighting of Tier 1 (higher quality) and higher weighting of Tier 2 names in 2023. During our regular ESG Checklist updates during the year, our team focused more on "Social" risks, often flagging any employee related issues and particularly data breaches. We took this step as we believe that the "S" in ESG has been gaining more attention. We do not believe that this movement represents a "riskier" portfolio per se, but provides more information for the investment team to consider when making investment decisions.

SRI Data

We have a long history of applying client requested negative screens on SRI factors for separately managed accounts. To assist these efforts, we have developed proprietary screens on 17 common SRI factors. We track revenue exposure to these screens in three buckets: 1) 0% revenue exposure; 2) 0-50% revenue exposure and 3) Greater than 50% revenue exposure. Our custom SRI screens can also be used to monitor portfolio risks as internal reports show an individual portfolio's exposure to SRI factors. Even if a particular portfolio does not have a negative screen, we believe when an industry increasingly becomes negatively screened out of portfolios by others, it can heighten refinancing and business model risks. Table II on the following page is a sample SRI report for a representative portfolio.

TABLE II: SHENKMAN'S SRI DATA FOR A REPRESENTATIVE PORTFOLIO AS OF 12/31/2023*

SRI FLAG REVENUE EXPOSURE	0%	>0% & <50%	>50%
SRI Flag Weighting	62.4%	22.0%	15.0%
Average OAS	261	265	230

SRI CATEGORY	>0% Revenue & <50% Revenue	>50% Revenue
Abortion/Abortion Related	3.0%	0.0%
Alcohol	9.4%	0.0%
Biological & Chemical Weapons	0.0%	0.0%
Civilian Firearms	0.0%	0.0%
Coal & Consumable Fuels	0.0%	0.0%
Defense	2.4%	0.0%
Gambling	2.2%	3.1%
Human Cloning	0.1%	0.0%
Landmines & Cluster Munitions	0.0%	0.0%
Nuclear Weapons	0.0%	0.0%
Oil & Gas	1.3%	11.9%
Pornography/Adult Entertainment	6.5%	0.0%
Predatory Lending	0.0%	0.0%
Private Prisons & Detention Centers	0.3%	0.0%
Prostitution	0.0%	0.0%
Sudanese Government	0.0%	0.0%
Tobacco	1.1%	0.0%
TOTAL	22.0%	15.0%

Does not add as one company can be in more than one category.

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For the companies that have exposure, portfolio managers and analysts can incorporate this information into their analysis and consider how these exposures may impact the businesses over time.

Examples Of ESG Integration in the Investment Process

Shenkman's long standing investment philosophy integrates ESG factors into its overall credit research process and is an important part of our risk mitigation process. Our research team regularly submits notable examples in which ESG had an impact on our decision process to a database that is shared and reviewed internally. Our Director of ESG selects samples of ESG cases quarterly, which we are pleased to provide to our clients upon request. Three examples of how we integrated ESG in our investment process in the last year, as well as an example of engagement, are described below.

Environmental Example	Social Example
Through recent acquisitions, a building-related materials company has made strides to eliminate carbon emissions from concrete production. The company's products currently displace 5% of the U.S. cement production of approximately 105 million tons per year, which keeps 6 million tons of Carbon Dioxide equivalents out of the environment. The company also announced a plan to implement a method of carbon emission tracking in 2023. These developments support the credit profile of the issuer, which could reduce the potential for costs related to increased regulatory scrutiny.	The Department of Labor ("DOL") sought an injunction against a sanitation company for child labor practices, extracting $1.5 million in fines. The DOL then followed up with a report on the company's systemic use of child labor, which resulted in increased media attention and ultimately the loss of significant customers. In our opinion, the short-coming in managing social and governance issues adds credence to our decision to historically avoid an investment in this company.
Governance Example	**Engagement Example**
The sponsor of a portable toilet and temporary fence rental company replaced the firm's senior management team. Following the leadership changes, the sponsor and interim management updated investors on quarterly results but did not field questions. This reduced transparency led us to decrease our position.	A loan issuer that has been in the market for a number of years launched an amend and extend transaction. The initial launch included weak covenants and financial terms that we believed were below market. We believe we have a strong relationship with management and the sponsor, so we felt confident we understood the business and were not surprised by the launch of the transaction. We took a role in forming an ad-hoc group to respond to the company and the sponsor. The group was successful, resulting in improved pricing, the addition of call protection, a minimum liquidity covenant, and tightened debt baskets. In our opinion, the transaction highlights the importance of maintaining strong management and sponsor relationships to engage successfully.

ESG Developments at Shenkman

Shenkman continues to make great strides in its internal ESG efforts, and we are pleased to highlight some of our achievements.

Continued Participation in Collaborative Organizations

As part of our commitment to sustainability, Shenkman continues to participate in industry organizations such as Principles for Responsible Investment ("PRI"), the CDP, Task Force on Climate-Related Financial Disclosures ("TCFD") and the Loan Syndications and Trading Association ("LSTA"). Additionally, in 2023, the firm joined the CFA's DEI initiative. Highlights of our work in this area are below:

- **CDP:** In 2022, Shenkman signed on to the CDP (formerly known as the Carbon Disclosure Project). The nonprofit organization works to foster and collect environmental disclosures from companies. Along with our support of the TCFD, this development shows Shenkman's commitment to encouraging clear and consistent disclosures from companies and incorporating ESG factors into our investment process. In 2023, Shenkman elected to participate in the CDP's non-disclosure project. As a result, we engaged with two companies to encourage them to complete the CDP climate change questionnaire. One of those companies did in fact complete the questionnaire. For additional information, please refer to the CDP website: https://www.cdp.net/en

- **Principles for Responsible Investment ("PRI"):** Shenkman became a signatory in August 2017, and we continue to engage with the PRI as the organization evolves and grows. In 2022-2023 our Director of ESG attended two collaborative meetings with the PRI. The first, "PRI in a Changing World", asked for feedback on the mission of the PRI and the future of responsible investment. The second, more recent initiative, "Progression Pathway", asked for feedback on accommodating a diverse signatory base and designing resources, goals, and/or reporting around varying ESG objectives or regions. After skipping 2022, the PRI resumed its annual reporting requirement. The publication of our annual Transparency Reports are on their website (https://www.unpri.org) and our PRI scores are included in Table III below:

TABLE III: PRI ASSESSMENTS

	2018	2019	2020	2021	2022	2023
Strategy & Governance	B	A	A			
Fixed Income – Corporate Financial	A	A	A			
Fixed Income – Corporate Non-Financial	A	A	A			
Fixed Income - Securitized	A	A	A			
Investment & Stewardship Policy				***	None	****
Direct – Fixed Income - Corporate				****	None	*****
Direct – Fixed Income - Securitized				****	None	****
Hedge Fund^				*	None	*
Confidence Building Measures						*****

^Hedge Fund assets <10% of assets and thus not completed.

Shenkman Capital's Estimated Carbon Footprint

In 2023, we estimated our carbon footprint for calendar year 2022, including scope 1, scope 2, and partial scope 3 emissions (see Table IV below). Broadly speaking, scope 1 emissions come from direct emissions from sources that are owned or controlled by our business, primarily natural gas and fuel for company vehicles. Scope 2 emissions are indirect emissions, primarily from the purchase of electricity. Scope 3 emissions are indirect emissions that are a consequence of the operations of our business, including employee commutes, air travel, production of purchased goods, and more. The key drivers for Shenkman's footprint are electricity usage (from office usage as well as an employee work from home allocation), employee commute, and employee air travel.

2022 has varied from 2021 as employees have come back to our offices, and the estimates for home office electricity usage, employee commutes, and our new NYC headquarters have changed. We expect 2023 estimates in 2024 to be a more normalized year for our business. We do not think the carbon offset market is mature enough or well understood enough to offset our carbon emissions at this time.

TABLE IV: SHENKMAN CARBON FOOTPRINT

In mtC02e Equivalent	2022
Scope 1 Emissions	0
Scope 2 Emissions	241
Scope 3 Emissions	212
TOTAL	453

Developments in DEI at Shenkman

Commitment to Diversity

Shenkman is committed to diversity in the workplace and recognizes that individuals of all backgrounds, experiences, and beliefs foster creative thought and offer varying perspectives. Shenkman is an equal opportunity employer and does not discriminate against any team member or applicant for employment based on race, color, religion, national origin, age, gender, sex, creed, handicap, disability, sexual orientation, citizenship status, marital status, veteran status, or any other characteristic protected by applicable law.

In 2023, we expanded our website and more information about our firmwide diversity, equity and inclusion efforts can be now found here: https://www.shenkmancapital.com/dei

Additions to Shenkman's Board of Directors

Shenkman's Board of Directors is responsible for the long-term direction of the firm including, but not limited to, the deployment of resources, annual budgets, promotions, regulatory compliance, new product development, business continuity, and corporate strategy.

As a boutique, privately owned investment firm, Shenkman's board is not large, nor do we have much opportunity to replace or add directors. However, because of a new opening and a recent board expansion (from 3 to 5 members), we have successfully created a more diverse Board. Biographies for the two new members are below:

Gloria Penn Thomas joined Shenkman's Board of Directors in December 2022. Ms. Thomas is a Professor of Marketing in the Zicklin School of Business at Baruch College. She is currently serving as Director of the Zicklin Undergraduate Honors Program and served previously as the Associate Dean of the Zicklin School and as the Executive Officer of the Doctoral Program in Business. Her research has covered a range of topics including interpersonal communication, competitive interaction, information theory, and, most recently, strategy. She has co-authored a textbook in personal selling and has published in a variety of journals including the Journal of Marketing, the Journal of Consumer Research, the Journal of Business Research, and the Journal of Advertising. Her teaching interests focus on strategy. She received her B.A. in Mathematics and Art History from Wellesley College and her Ph.D. in Marketing from Temple University.

Jay Williams brings nearly 20 years of business leadership experience to Shenkman, having stewarded multiple successful ventures at the intersection of finance, entertainment, and sports. He co-founded Simatree, an award-winning strategic advisory firm specializing in data, analytics, technology consultation, and digital transformation. He is currently a partner at Galway Holdings, LP, a financial services provider in insurance, tech, and consulting. Additionally, Mr. Williams is an analyst for ESPN's flagship basketball programs "NBA Countdown" and "College GameDay," a New York Times bestselling author, and a keynote motivational speaker for executive business conferences and charitable organizations. He is one of the most prolific college basketball players in history, a member of the National Collegiate Basketball Hall of Fame and was the second overall pick in the 2002 NBA draft by the Chicago Bulls.

Expanded Recruiting Efforts

Shenkman's goal is to more closely reflect the diversity of the communities in which we work, and as such, we use a variety of recruiting methodologies including professional networking, internal referrals, online career placement postings, and recruiting agencies, which communicate our Equal Employment Opportunity statement. The firm has been able to increase the number of diverse candidates leveraging these recruiter relationships in keeping with the Shenkman initiative to increase the diversity of its total population base at each hiring opportunity.

Shenkman's diversity commitment and philosophy is also shared with various college placement offices, inclusive of HBCUs (Historically Black Colleges and Universities), and recruiters with whom the firm has partnered to encourage and foster increased access to diverse candidates. In 2023 the firm recruited talent from the Honors program at Baruch College Zicklin School of Business. Additionally, the firm's investment team hired a full-time employee and a 2023 summer intern from HBCU Morehouse College. We look forward to continuing these initiatives in 2024.

Demonstrating our efforts, the firm reported that in 2023, 50% of new hires were non-white/Caucasian versus 21% in 2020. From a gender perspective, the female proportion of our workforce has grown from 30% in 2020 to 33% in 2023.

CFA Institute Diversity, Equity, and Inclusion Code (USA and Canada)

To help drive greater diversity, equity, and inclusion within the investment industry, Shenkman became a signatory to the CFA DEI Code in 2023. We recognize that diversity and fostering a sense of inclusion are ongoing commitments and as our firm continues to make strides in the DEI space, we acknowledge that this will be an effort which will continue to evolve and develop in the same way that our industry and firm population does. We anticipate and expect the firm to endeavor in even more creative initiatives and avenues for achieving growth in our DEI goals. The Core Six Principles of the Code are:

- **Principle 1– Pipeline:** Expanding the diverse talent pipeline.
- **Principle 2– Talent Acquisition:** Designing, implementing, and maintaining inclusive and equitable hiring and onboarding practices.
- **Principle 3- Promotion and Retention:** Designing, implementing, and maintaining inclusive and equitable promotion and retention practices to reduce barriers to progress.
- **Principle 4– Leadership:** Using our position and voice to promote DEI and improve DEI outcomes in the investment industry. We will hold ourselves responsible for our firm's progress.
- **Principle 5– Influence:** Using our role, position, and voice to promote and increase measurable DEI results in the investment industry.
- **Principle 6- Measurement:** Measuring and reporting on our progress in driving better DEI results within our firm. We will provide regular reporting on our firm's DEI metrics to our senior management, our board, and CFA Institute.

We look forward to implementing the reporting process with the CFA Institute.

Participation in Industry Events

Shenkman encourages and supports the efforts of team members who participate with professional networking organizations that promote diversity, equity, and inclusion. Some of these initiatives include the International Women's Insolvency and Restructuring Confederation, the CFA Society's CFANY Women's Mentorship Program, NAF (formerly known as National Academy Foundation), the IWIRC (International Women's Insolvency and Restructuring Confederation), and 100 Women in Finance. We highlight additional team member engagement that supports our culture of DEI:

- **SEO (Sponsors for Educational Opportunity):** The 14th annual Sponsors for Educational Opportunity ("SEO") Alternative investments Conference ("AICON") was held in April 2023. The SEO AICON promotes diversity by providing education, access, and career development for young and experienced professionals who have been historically excluded from the alternatives sector. Shenkman's Senior Vice President Pamela Brylski emceed the event.
- **2023 Milken Institute HBCU Fellows Program:** Members of our Business Development and Investor Relations team participated in the 2023 Milken Institute HBCU Fellows Program as Coffee Chat guest

speakers to share their experiences in investment management. Click here to learn more: https://www.linkedin.com/posts/viableedu_viableedu-and-the-milken-instituteinstitute-activity-7052594489466449920-d1bb?utm_source=share&utm_medium=member_desktop

- **IDAC Global Summit:** Shenkman provided an update on our Minority/Women-Owned Business Enterprises ("MWBE") and Diversity Dealer Initiatives ("DDI") at the Investment Diversity Advisory Council ("IDAC") Global Summit on DEI. We share in IDAC's goal to "Move the Needle" toward a more inclusive financial services industry. Please watch here for more information on Shenkman's DEI initiatives: https://www.linkedin.com/posts/shenkman-capital-management_idac2023-dei-activity-7125190947977474048-cqoz?utm_source=share&utm_medium=member_desktop

- **Beyond Barriers Podcast:** Senior Vice President Erica H. Simpson was interviewed on a podcast hosted by Beyond Barriers to support their mission to help women accelerate success. Ms. Simpson shared here personal career journey from having the highest sales of Girl Scout Cookies in the third grade to Principal and Senior Vice President at Shenkman Capital. The link to listen is here: https://www.gobeyondbarriers.com/podcast/byob-podcasts/blog/excelling-in-sales-with-shenkman-capital-s-erica-simpson

The firm continues to seek ways to engage with outside organizations and support the general investment community.

Minority/Women-Owned Business Enterprises ("MWBE") Trading Initiative

The firm recognizes the importance of diverse thought leadership and has expanded our Minority/Women-Owned Business Enterprises ("MWBE") relationships. Through our partnership with MarketAxess, in 2021, we onboarded their Diversity Dealer Initiative ("DDI") program which helps provide access to increased liquidity while adhering to best execution practices.

Shenkman has allocated trading volume since the inception of the program on August 24, 2021. We continually look for ways to expand these volumes with the goal of allowing these firms to more evenly compete with larger brokers. The commissions are earmarked to help capitalize and build out these minority, women and veteran-owned businesses as they attempt to further penetrate the high yield dealer community. Over the last three years ending 12/31/23, we have executed $1.6 billion in total volume through MWBE designated brokers (including and separate from the DDI program).

In recognition of our work, MarketAxess recently published a case study detailing our efforts in MWBE trading. To learn more about Shenkman's efforts click here: https://www.marketaxess.com/shenkman-capital-case-study.

AmeriVet Engagement

AmeriVet Securities is uniquely positioned as a dual registered Service- Disabled Veteran-Owned Business ("SDVOB") and Minority Business Enterprise ("MBE") that was founded by a Black, disabled veteran in 1994. AmeriVet's mission as a purpose-driven company is to provide first class capital markets and financial services across multiple lines of business, while producing opportunities and results within the veteran community. Originally connected through the MWBE trading program, Shenkman has looked to expand our relationship. We entered into a business arrangement with AmeriVet on Veteran's Day 2022 and have subsequently created a AmeriVet share class of our institutional short duration mutual fund that donates a portion of proceeds to charity (in February 2023). Additionally, in 2022, we worked with AmeriVet's intern program, sending several of our employees to present at several lunch-in-learn events and in 2023 we began hosting interns to shadow employees in our offices. As a veteran-founded firm ourselves, we look forward to continuing these efforts in 2024.

Loop Capital Partnership

As part of our efforts to develop ways to work with MWBEs in 2023, we engaged with Loop Capital to not only raise capital for a new product investing in structured credit but also to act as an underwriter on future structured credit deals.

Employee Engagement

In the last several years, Shenkman has expanded our internal DEI efforts and deepened our employee engagement. In 2020, Shenkman established a DEI Committee to give a formal voice to our team members. The committee provides a meaningful forum to consider, within the diversity and inclusion context, the firm's culture, existing policies, recruitment, retention, promotion, as well as our external relationships, and presents ways in which the firm may better address these initiatives across the organization. In its short tenure, the DEI Committee has supported numerous initiatives, including the following:

Shenkman Women's Network ("SWN")

In 2022, our first Employee Resource Group ("ERG"), the Shenkman Women's Network ("SWN"), was formed by our female leaders to support the team, create meaningful connections, and foster personal and professional growth. Within that context, the SWN had a very successful first full year of events. Events in 2023 included:

- **Career Coach:** In March, the firm hosted Monica Blacker from BAX Advisors. A former lawyer turned professional career coach for corporates and senior leaders, the interactive session "Rising to the Top: How to Get There and Help Others Climb Up" was educational and well attended.

- **Yoga in the Park:** In July 2023, the group attended Bryant Park's free yoga class followed by dinner/drinks. The event was an enjoyable way to take advantage of our Bryant Park location and was appropriate for all levels.

- **Guest Speaker:** In October, the firm hosted a Q&A with authors Ellen Carr and Katrina Dudley on their book "Undiversified: The Big Gender Short in Investment Management". The speakers focused on the underrepresentation of women in the investment management industry, the reasons for this lack of gender diversification, and some tangible recommendations. The meeting fostered conversations internally including with senior management who also attended the event.

- **Rowan Center Annual Holiday Event:** Shenkman has been a long-time sponsor for the Rowan Center in Stamford, CT. The Rowan Center mission is to provide counseling and support services to victims of sexual violence through community-wide education programs. The annual Gingerbread Houses and Cocktails for a cause has long been sponsored and attended by Shenkman team members.

Shenkman Mentorship Program

The firm sponsors an internal Mentorship Program established for all incoming team members with the goal of fostering career development and creating a more collaborative workplace. Mentors serve as a professional resource for their mentee where trust and respect are a priority between the two individuals. Mentors share their knowledge and perspective with their mentees to create deeper organizational and cultural understanding of the firm. In addition, mentors are a sounding board for new team members and help them with handling challenges and offering different perspectives. While the mentorship program is not new, the DEI Committee recommended enhancements to the program that are being implemented for this fiscal year.

Donation Matching

Now in its fourth year, we are pleased to highlight the Shenkman Donation Matching Program. The firm has selected organizations that are eligible for a company match, which are meaningful to the team and further the work of the DEI Committee. Each of the charities is "championed" by a current team member and in 2023 we hosted "lunch and learns" for these team members to provide further information on these great organizations that address underserved parts of our community. In the 2022-2023 fiscal year, team member contributions doubled from the prior year and participation by team member count increased 600bps.

Events Committee

In 2023, the firm created an Events' Committee to promote team building across departments and offices as well as to centralize our ability to support community events. We highlight several events below:

- **9/11 Walk/Run:** Members of the Shenkman team participated in the 9/11 Memorial & Museum 5k Run Walk. We are extremely proud to support the museum's mission of honoring those who lost their lives on 9/11 by giving back to our New York City community and educating future generations about the day we will always remember.

- **Wings for Ewing Sarcoma Volunteer Event:** In December, Shenkman employees supported Wings For Ewing Sarcoma, a local charity based out of Ardsley, NY, by volunteering at a holiday event at the Children's Hospital at Montefiore in Bronx, NY. The foundation was founded in May 2019 by the daughter of one of our employees after her own battle with Ewing Sarcoma, a highly aggressive pediatric bone cancer. The mission of the foundation is to find a lasting cure for all Ewing Sarcoma patients by fundraising to raise public awareness, make scientific research grants for Ewing Sarcoma research, and planning activities and retreats for life enriching experiences for those fighting pediatric cancers. Please visit www.wingsforewingsarcoma.org for more information.

- **Non-Certification CPR Training:** As part of our ongoing commitment to a safe and secure workplace, we were excited to offer non-certification CPR training to all SCM team members provided by the FDNY. Given the importance of these lifesaving skills, we believe participating in the training will not only enhance professional capabilities, but also contribute to the overall safety and well-being in the workplace.

- **Credit Hawks Softball Team:** 2023 saw the return of the Shenkman Capital summer softball team. This activity is a fun way for team members to connect and enjoy Central Park in the summer.

- **Shenkman Summer Party:** A longstanding Shenkman tradition, the 2023 event was held at the Knickerbocker hotel in July.

Conclusion

We are proud to report on the progress that our team has made in advancing the ESG and DEI initiatives of the firm. As the ESG landscape continues to evolve in 2024, we look forward to seeking to enhance our ESG work and capabilities. As always, we encourage continued dialog with our clients and seek ways to customize our ESG approach.

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