

Clearlake Private Credit Europe Sustainability Risk Policy

In accordance with the requirements of Article 3 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-related disclosures in the financial services sector (“SFDR”), Clearlake Capital (UK) LLP and Clearlake Capital (Lux) S.A.R.L., together (“Clearlake Private Credit Europe”) has chosen to formulate and disclose its policy on the integration of Sustainability Risks¹ into its investment decision making processes.

The objective of the policy is to explain how Sustainability Risks are integrated into our investment decision making activities.

Clearlake Private Credit Europe’s Investment Philosophy

Clearlake Private Credit Europe is a pure private debt manager, offering a suite of private debt products across the capital structure. Historically focusing on subordinated debt, Clearlake Private Credit Europe offers investors access to senior debt, semi-liquid credit as well as Broadly Syndicated Loans and CLOs.

Clearlake Private Credit Europe’s investment approach is built on core principles: rigorous credit analysis and active portfolio management.

Clearlake Private Credit Europe’s investment philosophy is committed to deliver attractive risk adjusted returns and bring environmental and social benefits for all stakeholders within our ecosystem over the long-term. Our investment approach follows a buy and maintain strategy, constructing diversified portfolios of European credits that typically have a market-leading position in stable sectors, targeting non-cyclical, defensive industries and regions where the team has a deep understanding.

Sustainability risk assessments are systematically included in all investment processes to reduce risk and enhance the environmental and social positive impacts.

Our risk assessment approach is based on the following investment principles:

- Active buy and maintain investment philosophy;
- Credit driven approach focused on less cyclical industries;
- Extensive expertise across Western Europe;
- Thorough due diligence processes;
- Strong long-term relationships with top-tier private equity sponsors; and
- Focus on responsible investing in stable cash generative businesses through the integration of sustainable risks.

Clearlake Private Credit Europe applies the same approach, which has been refined and enhanced over nearly 25 years.

¹ Sustainability Risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.

Clearlake Private Credit Europe's Regulatory Framework

Clearlake Private Credit Europe's Sustainability Risks integration measures comply with relevant provisions of the EU Sustainable Finance Framework, e.g.:

- AIFM² Delegated Acts – provisions to integrate Sustainability Risks in investment due diligence and risk management policies & processes and governance structures; and
- MIFID³ II Delegated Acts – provisions to integrate Sustainability factors in mandatory client suitability assessment and product governance processes.

In addition, Clearlake Private Credit Europe complies with United Kingdom and Luxembourg national frameworks and laws, as these jurisdictions have stressed the importance of incorporating Sustainability Risks in investment, risk processes, internal organisation and reporting of asset managers.

Evolving Policy

The integration of our Sustainability risk measures is outlined in this policy. However, Sustainability Risks are evolving according to the investors' expectations and regulatory requirements. Therefore, Clearlake Private Credit Europe will review on a regular basis its Sustainability Risks policy to be fully in line and compliant with all the requirements.

Consideration of Sustainability Factors in Clearlake Private Credit Europe's Investment Process

Investment analysis of non-financial factors, including the Sustainability factors,⁴ takes place as part of Clearlake Private Credit Europe's pre-investment due diligence procedures and ongoing monitoring processes. Clearlake Private Credit Europe believes that such factors may materially impact upon an investee company's financial performance and ability to meet its financial obligations in the long term. Clearlake Private Credit Europe therefore views incorporating consideration of these non-financial factors with respect to investments as being in line with its duties acting as an agent for its investors.

The below briefly outlines how Clearlake Private Credit Europe approaches the integration of Sustainability risk from an investment risk perspective. This approach is applicable to all asset classes Clearlake Private Credit Europe invests in.

Each investment process considers Sustainability integration according to Clearlake Private Credit Europe's investment philosophy. Sustainability factors can be critical to evaluating the Sustainability of an issuer and the expected impact on investment performance. Clearlake Private Credit Europe's Deal Team assesses the materiality of these factors in each investment decision. As part of the integration of Sustainability Risks consideration in our investment process, we incorporate a screening model alongside the inclusion of other relevant Sustainability considerations in our investment analysis:

- i. Negative Screening - certain specific sectors, issuers or themes are excluded to be aligned with Clearlake Private Credit Europe's own ethical beliefs, or where Clearlake Private Credit Europe does not feel comfortable investing, along with specific investor requirements, or where regulatory restrictions apply;

² Alternative Investment Fund Manager

³ Markets in Financial Instruments Directive

⁴ environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

ii. Positive Screening - investing in companies that demonstrate positive or low Sustainability risk factors, and / or companies that are well situated to deliver sustainable growth, relative to peers); and

iii. Sustainability Integration - the inclusion of Sustainability Risks analysis alongside traditional financial analysis of companies conducted by Clearlake Private Credit Europe.

Our Sustainability assessment aims to ensure that each new investment is and will be in line with investors' expectations as well as with voluntary and regulatory constraints.

Sustainability is an important aspect of our risk management – designed to limit potential downside risk and improve chances of generating increased performance. We assess risk at the market, sector and company/borrower levels.

At the asset level, Clearlake Private Credit Europe examines the Sustainability attributes of a company/borrower before investing in it by adopting a risk materiality (case-by-case) approach whilst simultaneously utilising a Sustainability checklist, proprietary to Clearlake Private Credit Europe, comprising a set of Environmental, Social, Governance and Stakeholders' Key Performance Indicators ("KPI"). Whilst the checklist ensures consistency (driving a cohesive assessment framework for tracking KPI development and in turn the Sustainability -related risks throughout the life of the investment), the materiality approach ensures that relevant Sustainability considerations not captured by the checklist are not omitted. This is supplemented by a controversy analysis, to ensure that no incident involving the company has been missed, which could have a negative impact on the parties involved, the environment or the operations of the company. This could harm its reputation and ultimately its financial profile. The analysis also performs a verification of alignment with international standards (United Nations Global Compact, ILO,⁵ and OECD⁶).

To support our Investment Professionals, we have dedicated procedures outlining the various guidelines on how to approach screening; exclusions; controversies; risk materiality assessment (case by case considerations); as well as the checklist, and an overview of necessary procedural steps which must be taken.

Every Investment Memorandum has a mandatory Sustainability section which is presented to Clearlake Private Credit Europe's Investment Committee. During Investment Committee meetings, the Sustainability assessment findings are presented as part of the investment proposal. Sustainability compliance is determined through deliberation on the combined Sustainability assessment findings.

We also intend to check, if possible, the eligibility with EU Taxonomy to:

- Identify environmentally sustainable economic activities; and
- Comply with current and future investors and regulatory requirements.

Governance

The operational aspects of internal oversight and reporting of Sustainability Risks incorporation across Clearlake Private Credit Europe primarily reside with the Sustainability Team and the Deal Team.

⁵ International Labour Organisation

⁶ Organisation for Economic Co-operation and Development

As part of the investment process, the oversight and mandatory incorporation of Sustainability considerations as part of the investment due diligence reside with the Portfolio Managers and senior members of the Deal Team. As with all prospective investment due diligence areas, it is the responsibility of the Deal Team to summarise and present all material/relevant Sustainability Risks (and mitigating measures) to the Investment Team.

The Sustainability team's purpose is to independently review and establish Clearlake Private Credit Europe's Sustainability policy, investment procedures and principles. The Team is further responsible for Sustainability related reporting on an annual basis and is present to assist the Partners, the Deal Team, and Clearlake Private Credit Europe's employees to enforce and implement Sustainability procedures for the purpose of responsible investing and monitoring.

Finally, it is the Sustainability team's responsibility to oversee the leadership team's tolerance for Sustainability Risks and considerations and to formulate Sustainability deliberation whenever appropriate. The scope of the Team covers oversight of Sustainability guidelines and investment principles and the effective incorporation of Sustainability initiatives within Clearlake Private Credit Europe.

Use of Data, Tools and Third Parties

Prior to each investment, Clearlake Private Credit Europe uses a proprietary Sustainability checklist and risk materiality assessment to ensure the Sustainability's alignment of the underlying portfolio company.

As part of our post-investment Sustainability monitoring, Clearlake Private Credit Europe works with third-party consultants to collect, aggregate and analyse on an annual basis Sustainability data from all existing investments. The data (derived from a proprietary framework) is validated by both the consultants and the underlying borrower/portfolio company.

Related Policies

Clearlake Private Credit Europe has adopted several complementary and related policies which provide an overview of its approach. These include, but are not necessarily limited to:

- Sustainability Policy
- Sustainability Investment Procedures
- Exclusion List
- Engagement Policy
- Portfolio Management Procedures
- Risk Management Policy
- Stewardship Code Disclosure Statement
- Statement on the UK Modern Slavery Act
- Personal Account Policy

- Whistleblowing Policy
- Inducement Policy
- Anti-Bribery Policy
- Conflicts of Interest Policy

Transparency and Reporting

Clearlake Private Credit Europe is a signatory to the UN Principles for Responsible Investment (UNPRI) and fulfils the reporting requirements that being a PRI signatory entails, in the form of the annual Transparency Report which is available on the PRI website (www.unpri.org).

In addition, Clearlake Private Credit Europe supports the transparency on governance and strategy recommended by the Task Force on Climate related Financial Disclosure – TCFD (<https://www.fsb-tcfd.org/>) and fulfils the reporting requirements that this entails.

At a corporate level, Clearlake Private Credit Europe calculates its carbon footprint on an annual basis, covering its office in London and the office of its wholly owned subsidiary in Luxembourg. For this exercise, Clearlake Private Credit Europe works with a third-party consultant, which is also covering the calculation of our portfolio financed emissions.

Remuneration Policy

Clearlake Private Credit Europe has reviewed its Remuneration Policy in accordance with the requirements of Article 5 of SFDR to ensure consistency with Clearlake Private Credit Europe's integration of Sustainability Risks as described above. The relevant details incorporated in that respect are featured below:

- Central to Clearlake Private Credit Europe's remuneration policy is the promotion of sound and effective risk management and this has now been extended beyond financial risks to encompass Sustainability Risks. In summary, relevant individuals who are involved in implementing and/or overseeing Clearlake Private Credit Europe's Sustainability Risks Policy will be assessed in this respect as part of the determination of variable remuneration awards by reference to their risk-adjusted performance. Clearlake Private Credit Europe does not have any quantitative Sustainability-focused performance targets at either a portfolio or asset level and therefore this is a qualitative assessment in respect of adherence to Clearlake Private Credit Europe's internal procedures for integration of Sustainability Risks as outlined above.
- Further, another key aspect of Clearlake Private Credit Europe's remuneration policy is to avoid creating an environment which rewards or encourages excessive risk-taking. Again, this principle has been extended beyond financial risk to incorporate Sustainability Risks; and for those individuals who have a role in ensuring or overseeing that Clearlake Private Credit Europe's Sustainability Risks policy is adhered to, this is factored into decisions in respect of variable remuneration awards.

Sustainability adverse impacts

Clearlake Private Credit Europe aims to mitigate the negative impacts on Sustainability factors in its investment process as it can lead to negative material effects.

These negative impacts are also referred to Principal Adverse Impacts (PAI). These impacts can be related to the environment, social and employee matters, human rights, corruption and bribery matters.

Clearlake Private Credit Europe prioritises adverse impacts depending on the asset class and the strategy led by the Deal Team. Nonetheless, adverse impacts are always used as input for our investment decisions.

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