

**CAIRN CAPITAL GROUP LIMITED
CAIRN LOAN INVESTMENTS LLP
CAIRN LOAN INVESTMENTS II LLP**

ESG POLICY

| Version | Date | Author | Rationale |
|----------------|-------------------|---------------|--|
| 1.0 | 8 March 2019 | Tina De Baere | |
| 1.1 | 20 September 2019 | Tina De Baere | Policy coverage extended to Cairn Loan Investments II LLP; update to ESG Policy Committee members. |

TABLE OF CONTENTS

| | |
|---------------------------------|----------|
| INTRODUCTION | 2 |
| <hr/> | |
| APPROACH | 2 |
| <hr/> | |
| FIRM-WIDE ESG GUIDELINES | 3 |
| <hr/> | |
| ESG INTEGRATION | 3 |
| <hr/> | |
| ENGAGEMENT | 4 |
| <hr/> | |
| TRAINING | 4 |
| <hr/> | |
| ESG TEAM | 4 |
| <hr/> | |
| HEAD OF ESG | 4 |
| <hr/> | |
| ESG POLICY COMMITTEE | 4 |
| <hr/> | |
| THE BOARDS | 4 |
| <hr/> | |
| INTERNATIONAL GUIDELINES | 5 |
| <hr/> | |
| CORPORATE RESPONSIBILITY | 5 |
| <hr/> | |

INTRODUCTION

This policy applies to all financial assets that are managed by Cairn Capital Limited, Cairn Loan Investments LLP and Cairn Loan Investments II LLP¹ (together referred to as “Cairn Capital” for the purposes of this document).

Cairn Capital is committed to adopting and implementing responsible investment² principles in a manner that is consistent with our fiduciary responsibilities to clients. This document specifically sets out Cairn Capital’s approach to the management of environmental, social and governance (ESG) issues, including the principles which Cairn Capital aspires to. The policy is supported by a set of procedures which have been implemented in order to integrate these principles into Cairn Capital’s activities.

Cairn Capital’s commitment to responsible investment is driven by (i) the belief that ESG issues can be a source of risk and financial performance; (ii) our aspiration to contribute to society as a good corporate citizen; and (iii) our aim to meet evolving sustainability preferences of clients and investors. Cairn Capital recognises that the management of ESG issues forms a fundamental aspect of a business’s long-term success. By adopting this policy, Cairn Capital takes the step of formalising its approach to managing ESG issues so that these are integral to our investment process.

APPROACH

Cairn Capital’s approach is based on a combination of both (a) a negative screening/top-down approach using broad criteria to remove certain companies with specific business activities and (b) a bottom-up fundamental approach to assess an investment against asset-class specific ESG criteria.

FIRM-WIDE ESG GUIDELINES

Exclusionary screening

Cairn Capital actively seeks to avoid investing in companies (or their affiliates, holding companies or financing subsidiaries) directly involved in the production or sale of cluster weapons³, anti-personnel landmines⁴ or chemical and biological weapons⁵.

¹ Cairn Capital Limited acts as a service provider of credit research to Cairn Loan Investments LLP and Cairn Loan Investments II LLP.

² Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, with the aim to better manage risk and generate sustainable, long-term returns. ESG integration is the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions.

³ A bomb, missile, rocket or shell that carries multiple explosive submunitions and disperses them over an area, causing widespread and indiscriminate harm and damage. Submunitions generally explode in the area or on impact. If they do not explode, they can be dangerous to civilians long after the weapon has been fired.

⁴ A munition that is placed under, on or near the ground or other surface area and explodes by the presence, proximity or contact with a person or upon command by an operator from a remote location. They can cause harm for many years.

⁵ Weapons that use pathogens such as viruses, bacteria and disease-causing biological agents, toxins or chemical substances that have toxic properties that kill, injure or incapacitate.

This exclusion requirement (i) applies across all asset classes, irrespective of an investment's holding period, and (ii) does not apply to passive holdings in index-tracking instruments.

A client may have specific sustainability preferences and Cairn Capital can take those into account.

ESG INTEGRATION

Cairn Capital adopts a fundamental bottom-up approach to assess an investment against ESG metrics, alongside traditional financial analysis. This means that when evaluating possible investments in terms of the expected risk-return ratio, ESG factors are explicitly and systematically taken into account by analysts. By doing this, Cairn Capital believes it ends up with a better risk-weighted return for investments.

1. Fundamental in-house research

Through Cairn Capital's internal research process, analysts seek to understand how companies perform on key ESG issues and how companies manage them (and if data is available, how this compares versus peers and how this has changed over time). ESG issues are taken into account, when they are considered to be material or directly relevant to the entity in question.

Whilst the Head of ESG assists the analysts in determining the most relevant ESG metrics for each asset class, the responsibility for identifying (and monitoring) material ESG considerations for each investment lies with the analyst.

With regards to **environmental factors**, the aim is to understand environmental risk (and opportunities) facing the company and the potential impact from this on its operational performance, competitiveness and reputation; for this purpose, analysts may look into how the company manages and reports on emissions, water, energy, waste and other metrics.

With respect to **social factors**, the purpose is to evaluate the management of issues such as labour, health and safety and community relations and understand potential reputational or litigation risk from any mismanagement.

On **corporate governance**, the objective is to identify issues and analyse risks relating to the organisation of the company.

2. External research

Cairn Capital has engaged the services of MSCI ESG Research LLC to complement internal ESG assessments on companies. MSCI ESG provides ESG ratings and research on ESG-related business practices of companies. The ESG ratings are industry specific and are calculated relative to industry peers and analysts use these ratings in conjunction with their wider analysis.

If the issuer/relevant counterparty is rated by MSCI ESG, the rating is (i) included in the analyst research notes and trade approvals which form part of the investment decision and (ii) discussed in the Investment Committee. The responsibility lies with the analyst.

For some issuers, there is no coverage from MSCI ESG and, in these instances, the Investment Committee relies on the analyst's assessment alone.

ENGAGEMENT⁶

Cairn Capital believes it has a responsibility towards society to endeavour to influence the companies it invests in, or provides financing to, to act in a responsible manner.

Despite being debt holders, Cairn Capital can still stimulate dialogue with issuers on strategy, risk and any specific ESG issues. For example, analysts can engage directly with the company in the run-up to new issuance or during ABS originator/servicer visits or raise issues with the loan sponsor. During this process, analysts share their concerns or the ESG risks that are identified for the company. The objective is to encourage companies to improve their practices and maintain a long-term direct dialogue. Cairn Capital also encourages companies to address ESG issues as part of their annual financial reporting.

TRAINING

The investment team is provided with ESG training, where required, organised by the Head of ESG and/or MSCI ESG.

ESG TEAM

HEAD OF ESG

Tina De Baere, as Head of ESG, is responsible for the development and implementation of the ESG policy. Tina works closely with the investment team in integrating ESG factors into the investment process. Tina monitors compliance and consistency across Cairn Capital's investment platform and gets ad hoc support from the ESG Policy Committee.

ESG POLICY COMMITTEE

The ESG Policy Committee comprises senior executives from across Cairn Capital's business, including Andrew Burke (CIO), Graham Murphy (CRO) and Robert Pierce Jones (co-founder and director). The ESG Policy Committee meets at least quarterly to review the ESG policy and to discuss further enhancements to the ESG framework. ESG concerns on specific issuers are discussed in the Investment Committee.

THE BOARDS

The boards of Cairn Capital Limited and Cairn Capital Group Limited and the partnership boards of Cairn Loan Investments LLP and Cairn Loan Investments II LLP have reviewed this policy. Any further updates to the policy will be subject to their review.

Any progress on ESG and any policy updates are discussed in each board meeting. The Head of ESG prepares an ESG statement ahead of the meeting.

⁶ Engagement refers to interactions between the investor and current/potential investees on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure.

INTERNATIONAL GUIDELINES

PRINCIPLES FOR RESPONSIBLE INVESTMENT

Cairn Capital Group Limited is a signatory to the UN-supported **Principles for Responsible Investment (PRI)**. The PRI is a global, collaborative network of investors established in 2006 in recognition of the increasing relevance of ESG issues within the investment process. The Principles set forth by the PRI are a set of best practices for incorporating ESG issues into investment decision-making where consistent with fiduciary responsibilities. As a signatory, Cairn Capital Group Limited commits to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

UN GLOBAL COMPACT

Through Mediobanca S.p.A., Cairn Capital Group Limited and Cairn Capital Limited are participants to the UN Global Compact which seeks to promote responsible corporate citizenship.

CORPORATE RESPONSIBILITY

Not only does Cairn Capital fully embrace ESG in its investing activities, it also strives to be a socially responsible company and therefore aims to integrate sustainability into its business strategy and management.

- Cairn Capital raises ESG awareness in the context of its business with employees, service providers and other stakeholders.
- Cairn Capital supports local charities through donations and partnerships. Examples are charities such as Stop the Traffik, Magic Breakfast, Chain of Hope, the Coram Foundation and the Prince's Trust.
- Cairn Capital provides good employment conditions and a safe and healthy workplace and promotes employee satisfaction.
- Cairn Capital strives for diversity within its workforce and company management.
- Cairn Capital provides equal opportunities and protection against any discrimination.
- Cairn Capital promotes to employees a healthy work-life balance.
- Cairn Capital aims to reduce its travel footprint for all its business travel.
- Cairn Capital views child and forced labour as unacceptable.

Note that **Mediobanca** is also working to integrate sustainability into its business strategy and management and has set out to steer the Group towards improvement in five key areas, as outlined in Mediobanca's Group Sustainability Policy.