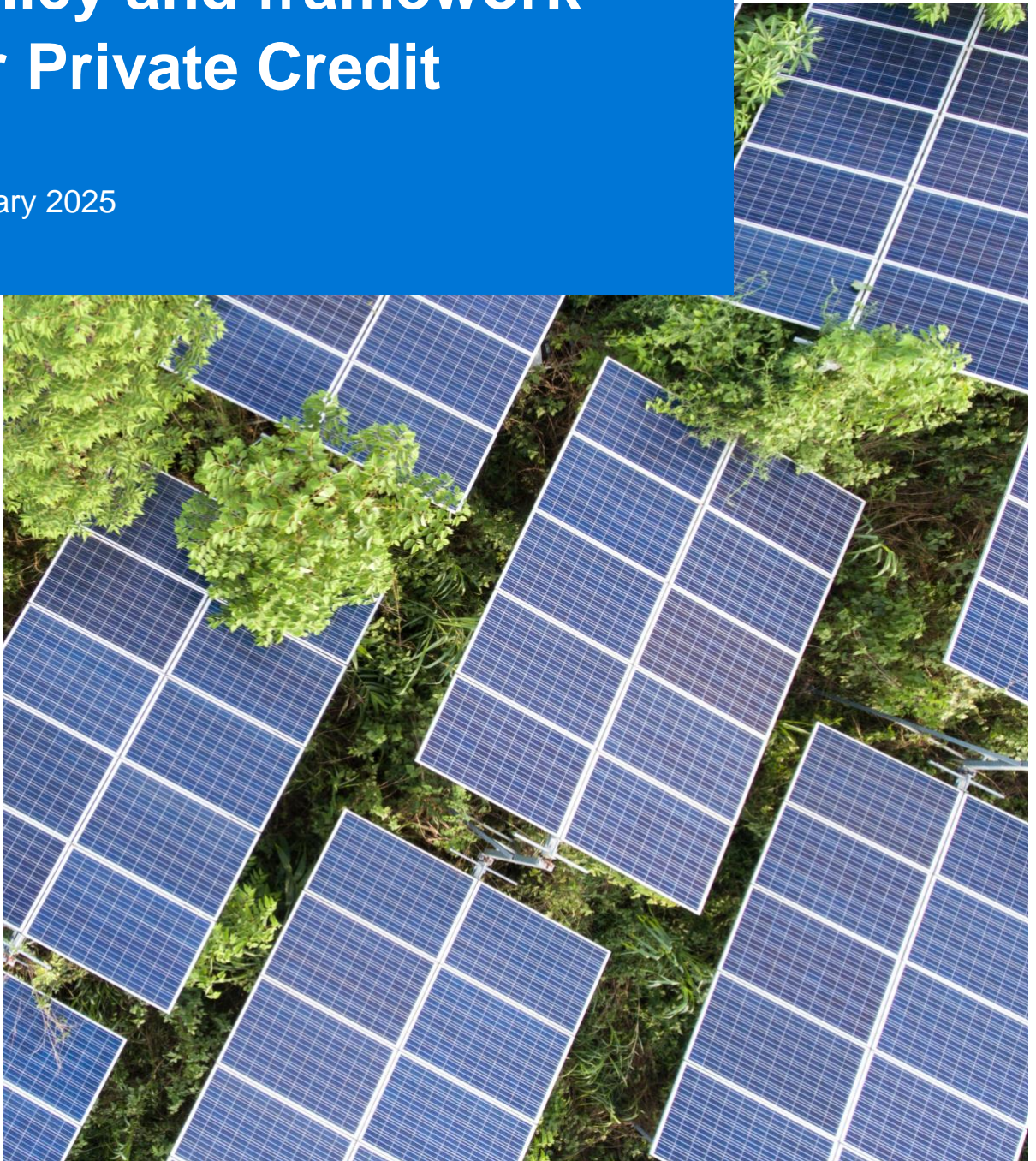


Responsible investment policy and framework for Private Credit

January 2025



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1. Our approach to responsible investment

1.1 Introduction & Scope

Legal & General (L&G) is one of Europe's largest institutional asset managers and a major global investor. As a long-term investor in the Private Credit business, we have a responsibility to protect our clients' capital through integrating ESG considerations into our investment process. We believe the built environment has a significant role to play in addressing our carbon footprint and the impacts that our assets and operations have on the environment and the communities which they operate within.

This document sets out our Responsible Investment Policy for the Private Credit business. L&G is committed to continually improving our policy and strategy to deliver on and actively manage the ESG and sustainability performance of our Private Credit portfolios, encompassing all elements of material issues across sectors and geographies. This policy establishes the principles, governance and objectives that will be adopted by the platform. We update this policy in line with emerging ESG priorities including responding to evolving regulatory developments.

1.2 Responsible investment purpose and guiding principles

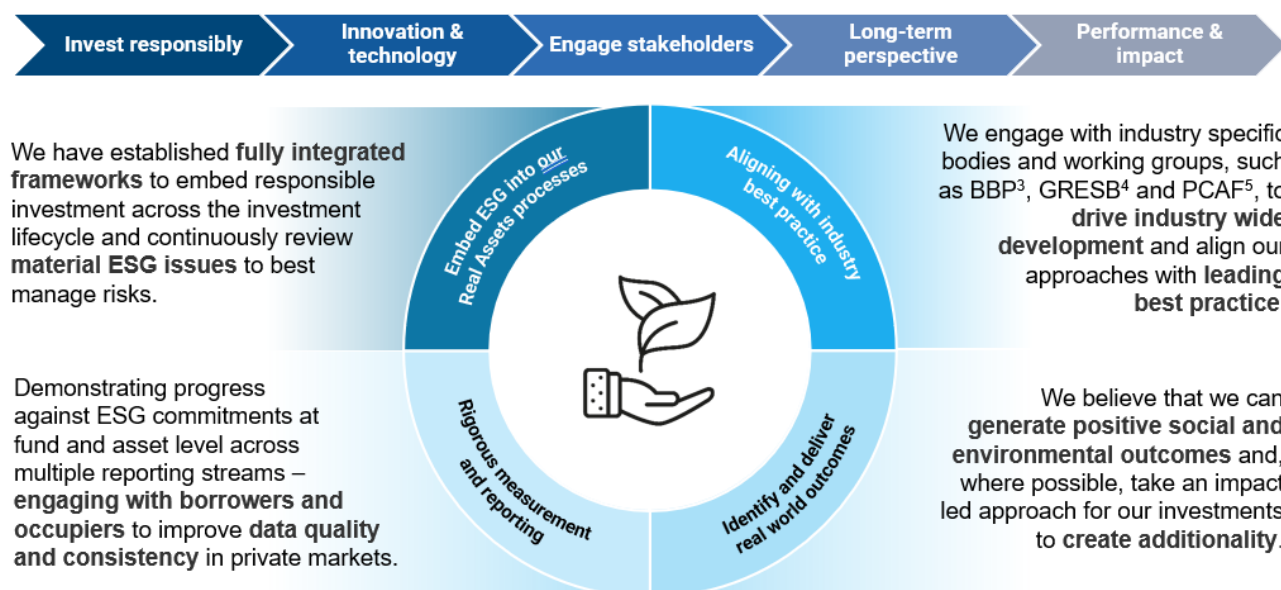
Responsible investment is an approach, which integrates environmental, social and governance (ESG) factors into investment analysis and decisions aiming to deliver long term sustainable investment returns¹. At L&G, we believe a responsible and sustainable approach to private markets investment management can enable our business to deliver long term positive value to all our stakeholders, whilst also having the potential to create real world impact. Our responsible investment beliefs and core principles are embedded into our culture, asset management and investment process². We believe that the effective integration of ESG factors is important for our business for the following reasons:

- a. We believe that well governed companies that manage key stakeholders, including the environment, are more likely to deliver sustainable long-term returns
- b. Consideration of ESG issues is core to risk management and is, therefore, part of our fiduciary duty
- c. Companies are intrinsically linked to the economies (and societies) in which they operate and, therefore, investors have a responsibility to the market as whole
- d. Our overarching goal is to protect and maximise the investment returns for the benefit of our clients' interests

¹L&G applies The Investment Association industry definitions of Responsible Investment as our standard framework. The [IA Responsible Investment framework](#) published in Nov 2019 categorises and provides standard definitions for the different components of responsible investment.

²Whilst L&G has integrated Environmental, Social, and Governance (ESG) considerations into its investment decision-making and stewardship practices, this does not guarantee the achievement of responsible investing goals within funds that do not include specific ESG goals within their objectives.

Figure 1: Responsible Investment Purpose & Guiding Principles



For illustrative purposes only.

³The **BBP** is a collaboration of leading property owners who are working together to improve the sustainability of commercial buildings.

⁴**GRESB** provides a rigorous methodology and consistent framework to measure the ESG performance of individual assets and portfolios based on self-reported data.

⁵**PCAF** is an industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement.

1.3 Our approach to responsible investment in private credit

Our Private Credit portfolio currently includes investments in corporate and alternatives, infrastructure and real estate debt.

As a long-term investor, we have a responsibility to protect our clients' capital through integrating ESG and climate change considerations into our investment process. We believe this leads to better risk management and can drive the long-term value of our investments over the next several decades. For example, by avoiding borrowers who do not maintain their social licence to operate or avoiding energy assets which may become obsolete in a decarbonising world, we can minimise the long-term risks in our portfolio.

Our approach, to all investments in the Private Credit space, is to ensure the E, S and G are fully considered as part of the wider investment decision making process. We do this by taking both a top down and bottom-up approach to assessing ESG risks, which enables us to mitigate downside risks on financial performance.

We conduct top-down research to analyse long-term ESG trends and their implications for the markets in which we operate. The research findings are used to inform our views on sector allocation and asset selection. Bottom-up research relates to ESG assessment of individual assets. This stage involves the analysis of asset performance against key ESG metrics in order to flag and address potential risks and highlight opportunities. Material ESG issues and trends will vary across sectors and asset classes. As such, we incorporate these considerations for each transaction during our due diligence, while aligning with our six core, sustainable pillars.

At the same time, we apply analyst judgement and expertise in evaluating the relative positioning of individual companies within different industries. For example, with respect to the energy transition and climate change, we

analyse capital expenditure budgets, decarbonisation plans and operating costs to determine borrowers that we believe are best positioned for the energy transition ahead.

In driving a consistent responsible investment approach across our platform, we are looking to ensure greater standardisation, which means a constant quest for improved data quality and transparency. To that end, we are a member of several industry initiatives seeking to drive improvements in this area, such as Partnership for Carbon Accounting financials (PCAF), GRESB Infrastructure Debt Working Group and the Private Placement Investors Association (PPIA).

1.4 Governance, roles and responsibilities

1.4.1 Board-level governance

The Private Markets Responsible Investment Oversight Matters (RIOM) committee is responsible for overseeing the responsible investment and sustainability characteristics, objectives and commitments of all portfolios managed within the Private Markets business, including governing platform-wide responsible investment and sustainability strategies. The RIOM is a sub-committee of the Executive Committee (ExCo) and is chaired by the Head of Responsible Investments & Sustainability. RIOM members are represented by senior heads of the respective business areas. The RIOM Terms of Reference have escalation criteria which allows the necessary company-wide decision-making bodies to deliberate relevant issues when raised.

Our responsible investment strategy and policies are aligned with both L&G Group's policies and management and L&G's responsible investment policies.

At L&G Group level, the Global Head of Private Markets is a standing attendee on the Group Environmental Committee. The GEC has responsibility to ensure compliance with the principles of good corporate governance. It is also responsible for developing and reviewing Group ESG strategy and policies. Under the governance of the GEC, there are relevant subcommittees, where our Responsible Investment and Sustainability members are represented:

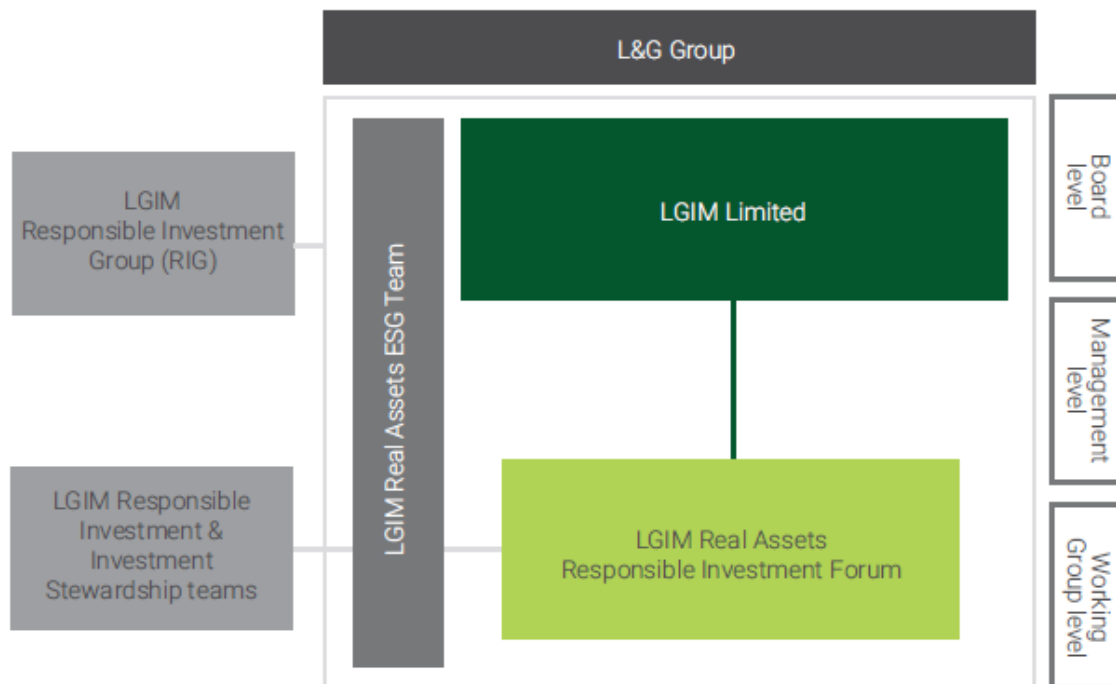
- i. Climate Risk sub-committee
- ii. Environment sub-committee

1.4.2 Responsible Investment and Sustainability Team

Private Markets has a dedicated Responsible Investment and Sustainability team, led by our Head of Responsible Investment and Sustainability who reports into the Global Head of Private Markets. The team supports ESG integration and sustainable investment efforts across the private markets platform, covering debt and equity in real estate, infrastructure and private credit. The team are responsible for setting the ESG strategy, policies and processes and establishing objectives that support ESG integration in investment and asset management, including driving greater sustainable investments. The extent to which ESG factors can be integrated in investment and asset management may vary across the platform due to fund-specific requirements. These are approved by our Executive Committee which has oversight of ESG integration and implementation across the real estate equity platform.

The Responsible Investment and Sustainability team works closely with the investment, asset management and portfolio management teams throughout the investment process – from origination to post-investment. All these areas play an important role throughout the investment process and spanning the life cycle of the assets.

Figure 2: Responsible Investment Governance Structure for Private Credit



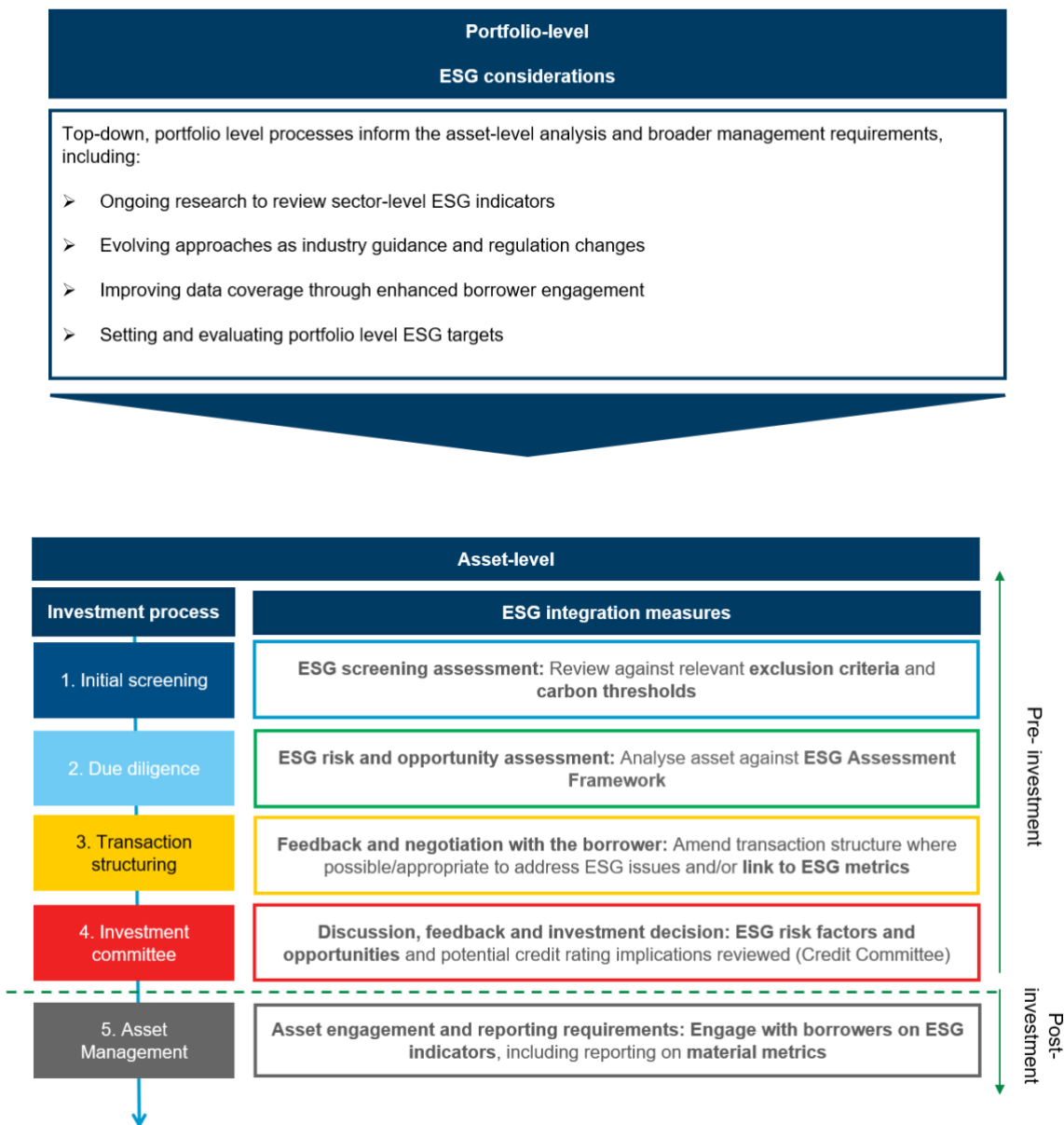
2.ESG integration in private credit

2.1 Overview

We are committed to integrating ESG into our investment process to ensure the assets we finance are of the highest possible quality. We integrate ESG considerations into all our investment decision making by identifying and managing the issues that are, in our view, the most material to our assets across the investment lifecycle.

ESG implementation is essentially part of the responsibility of the investment, asset management and portfolio management teams, working closely with the ESG team to ensure that it is fully integrated throughout the investment process – from origination to post-investment. This is illustrated in Figure 3.

Figure 3: Building blocks of our ESG integration approach



Our ESG assessment methodology will be tailored according to the type of investment as some transactions have unique negotiated structures. As a debt investor, we can exert the most influence in the pre-investment stage, while terms and structure are being negotiated. In this stage, we can discuss and address ESG issues with the borrower and structure the transaction to minimise risks and require regular ESG reporting and transparency.

2.2 Initial ESG screening

Due to the longer-dated and often illiquid nature of assets in our Private Credit portfolio, initial ESG screening is a key stage in the pre-investment process.

Across L&G, we have identified borrowers whose business practices and products are incompatible with our purpose and principles as a responsible investor. After a thorough research and due diligence process, these companies are put on an exclusion list. Therefore, our ESG management approach firstly takes into account an ESG screening process to ensure the asset (company or project) is not in our exclusion list.

Our approach in the early stages of assessing a potential investment opportunity is also informed by our long-term sector views. While this aspect of our screening approach is less prescriptive and involves a deal of analytical judgement and discussion, it can lead to us declining the transaction. We may, for example, decline to proceed if we believe that the asset in question has a negative impact on the local community, is incompatible with our climate change goals or is putting an undue burden on the public sector.

2.2.1 Exclusion list

We will not provide funding to businesses that we believe have failed in their duty to act as responsible corporate citizens, exclusions are managed on a best efforts basis dependent on the strategy and the nature of the asset class.

Our exclusions list is aligned with our Future World Protection List ("FWPL")⁶. The FWPL consists of companies that L&G considers to be failing to meet minimum standards of globally accepted business practices, as set out in the FWPL methodology. These include:

- perennial violators of the United Nations Global Compact,
- certain companies involved in the manufacture and production of controversial weapons, and
- certain companies with involvement in mining and extraction of thermal coal, thermal coal power generation or oil sands which have not set out a clear plan aligned with the Paris Agreement to phase out thermal coal in accordance with specific criteria.

The FWPL methodology uses various assessment criteria, including revenue thresholds, to identify companies for incorporation on the list.

We also consider exclusions of companies on our Climate Impact Pledge divestment list⁷. The Climate Impact Pledge divestment list includes companies, which after a certain period of engagement, continue to not perform well against our climate assessment, are unresponsive to engagement recommendations, and/or keep falling behind in meeting L&G's minimum standards.

In addition, the Fund excludes companies that are considered to have material levels of exposure to certain tobacco manufacturing and production.

⁶ <https://www.lgim.com/landg-assets/lgim/-document-library/capabilities/future-world-protection-list-public-methodology.pdf>

⁷ <https://www.lgim.com/uk/en/responsible-investing/climate-impact-pledge/>

In addition to the above exclusions, Private Markets will also conduct more in-depth, due diligence reviews of companies within sectors deemed as high risk, including, but not limited to:

- Adult entertainment
- Alcohol
- Gambling
- Recreational cannabis
- Civilian firearms
- High interest rate lending
- Private prisons
- Palm oil

We will also assess if the entity has an ESG score from our internal proprietary ESG tools which apply primarily to listed companies.

The findings from the initial ESG screening directly inform investment decision making, and in some instances may terminate an investment. The decision to pursue a potential investment is based on an assessment of ESG issues and risks, and whether Private Markets can effectively manage these ESG issues.

This analysis feeds into our decision-making prior to making a commitment. Situations may arise where an existing asset, which passed the initial ESG screening, transitions onto an exclusion list post-investment. These assets will be reviewed on a case-by-case basis. Liquidity, valuation and other factors will need to be balanced against the ESG considerations to ensure the best possible outcome.

2.3 ESG due diligence

Once the asset has passed the initial screening process, we will undertake an ESG assessment, taking into consideration industry (or sub-industry) views and a more detailed assessment at company/project level.

As part of the due diligence process, the senior management of the prospective borrower or transaction sponsor is engaged to provide disclosure of ESG risks through an internal ESG Due Diligence Questionnaire (DDQ). We have adapted several industry frameworks to highlight the most material ESG issues for consideration, whereby the ESG factors will vary in terms of priority (weighting) depending on the nature of the project or sector. These industry frameworks include:

- **Sustainability Accounting Standards Board (SASB) framework and materiality map,**
- **ESG Data Convergence Initiative (EDCI)**
- **Private Placement Investors Association (PPIA) corporate sustainability questionnaire**
- **GRESB Infrastructure framework (specific to Infrastructure Debt).**

Primary responsibility for ESG assessment rests with the investment manager working on a potential transaction. Investment managers will be supported by the ESG team and investment research teams across the business, to undertake an in-depth ESG assessment of the asset to be financed, factoring in evolving ESG considerations across different sectors. In tackling ESG analysis, our Private Credit teams also leverage the expertise of other L&G businesses, such as the Stewardship team. Our traded fixed income and equity teams are a source of valuable expertise in assessing ESG risks in infrastructure and corporate private debt, while the ESG framework adopted in the Private Markets real estate equity funds serves to inform our ESG analysis of real estate debt transactions.

2.3.1 ESG framework

Our ESG framework consists of top-down research of long-term trends, which also informs our bottom-up analysis of individual issuers and their implications for the way we allocate capital.

Our bottom-up ESG framework is designed to capture material ESG risks and impacts relevant to each sector, ranging from carbon emissions to employee and contractor health and safety, community development, board composition and bribery and corruption. Information sources during the due diligence phase can come from a variety of sources including sell-side research, ESG and sustainability data providers, legal and technical due diligence reports and equity sponsor materials, including in-house research and ESG analysis (from the public markets). We also work closely with our Credit Rating team in order to incorporate any ESG considerations that may have an impact on the future cash flows or credit risk of the business in question.

Table 1 includes the most common examples of material ESG risk indicators that are factored into our ESG assessment. This is not an exhaustive list of possible indicators considered in the assessment and not all these indicators will be relevant for every transaction - our due diligence focuses on the key risks most material for the particular asset based on its business model and sector. ESG factors will differ depending on the type of debt transaction – corporate, alternative, infrastructure or real estate debt. We also assess the likely future performance trajectory, looking at management commitments, governance structure, including ESG links to remuneration for executive staff, capex, and transition plans. Ultimately, these factors are weighted based on which criteria are reasonably likely to impact the financial or operating performance of a company, project or industry, and are therefore the most important from an investment perspective.

Table 1: ESG risk assessment key indicators

Dimension	ESG Indicators
Environment & Climate Change	<ul style="list-style-type: none"> - Corporate Sustainability Policy <ul style="list-style-type: none"> o Board approval - Decarbonisation Targets <ul style="list-style-type: none"> o Interim o Long-term o SBTi-alignment - Climate Transition Plan <ul style="list-style-type: none"> o Carbon intensity trend o Renewable energy programmes o Activity in fossil fuel sector - Physical Climate Risk Assessment - GHG Emissions <ul style="list-style-type: none"> o External verification o Absolute emissions o Carbon footprint o Weighted average carbon intensity (WACI) - Water Policy - Emissions to Water - Waste Intensity <ul style="list-style-type: none"> o Hazardous Waste - Biodiversity <ul style="list-style-type: none"> o Policy o Programmes - Environmental Management System
Social	<ul style="list-style-type: none"> - Discrimination Policy - Diversity Policy - Equal Opportunity Policy - Freedom of Association Policy - Fair Remuneration Policy

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	<ul style="list-style-type: none">- Bribery and Corruption Policy- Whistleblower Programme- Gender Pay Gap- Health and Safety Policy- Lost Time Incident Rate- Community Engagement
Governance	<ul style="list-style-type: none">- Business Ethics Programme- Board Transparency and Independence<ul style="list-style-type: none">o Independent Oversight of Audit- Board Diversity<ul style="list-style-type: none">o Female Representationo Ethnic and Other Diversity- Female Management- Audit Transparency- Tax Disclosure- Lobbying and Political Expenses

2.4 Transaction structuring and borrower engagement

ESG issues flagged during the due diligence process are discussed with the borrower. Where we identify material ESG risks that have not been factored into the borrower's financial forecasts, we may ask, where appropriate, for additional mitigants such as higher interest cover ratios or additional liquidity reserves.

Where material risks are identified, we may ask the borrower to report to us on ESG metrics throughout the asset life. Depending on the circumstances, we may decide to be kept informed via regular meetings and communication with the borrower, or by formally including ESG disclosure requirements as information undertakings² in legal documentation. In the latter case, ESG reporting would be included in quarterly compliance certificates submitted by the borrower, reviewed and signed off by the Private Markets investment teams.

Finally, we work closely with and share expertise on ESG matters with borrowers, co-lenders and/ or equity sponsors in order to manage specific risk exposures.

2.5 Investment committee process

Our ESG due diligence findings, which identify material risks and opportunities, are summarised in the Private Credit Investment Committee ("PCIC" or "Investment Committee") memorandum alongside other important considerations for Investment Committee decision-making, such as, the borrower's credit terms and credit rating, rationale for the investment, and value from a portfolio perspective. The ESG summary provides a snapshot of the key ESG risk and opportunities assessed for the individual investment case including, in some cases, specific ESG considerations highlighted by the Investment and ESG teams.

In the event the investment does not meet the ESG due diligence criteria or significantly deviates from our Responsible Investment purpose and principles, the investment would be declined at an earlier stage before going to Investment Committee.

² Information undertakings are determined within the document negotiation process with the borrower prior to financial close. Maintenance Information Undertaking, whereby the Borrower is bound to continuously provide detail on ESG performance is generally a stronger covenant than an Occurrence Information Undertaking, where a Borrower is obliged to report only when there is a significant change to their ESG performance. Exact type of information undertaking Private Markets is able to negotiate may vary from asset to asset.

The ESG summary for the IC includes:

- A brief summary of the DD process;
- ESG risk assessment findings, highlighting the most material ESG risks; and
- Identifying risks/gaps that need to be managed and monitored, which may be conditional to obtaining approval subject to the company fulfilling ESG conditions prior to investment.

Decisions taken at IC on ESG matters will be recorded as part of the IC process in the minutes. Where the IC has granted conditional approval, the Investment and ESG teams will engage with the borrower to ensure that conditions or outstanding actions and/or documentation have been completed or attained and reviewed prior to drawdown.

Any longer term ESG considerations that are deemed material to the IC over the life of the financing will be recorded and incorporated as part of the Post-Investment monitoring and reporting process.

2.6 Post-investment monitoring

On-going monitoring after a transaction has been completed is an essential part of our investment process, contingent on the strategy. During the due diligence phase, we identify any material ESG issues that we believe should be monitored during the life of the investment and consider emerging issues on an on-going basis. This typically involves our own research whereby we monitor for ESG incidents and identify growing exposure to ESG risks, changes in management, etc. Monitoring is carried out through ESG questionnaires being sent out on an annual basis to issuers and through ad hoc and regular asset management meetings with issuers.

Additionally, we rely on regular communication with the borrowers to ensure an in-depth understanding of an asset's performance over the life of the investments, which includes ESG. This communication can take place via regular meetings with the management, ad-hoc meetings to address key market (including ESG) developments and regular reports that the borrowers send to us on a quarterly basis.

We have a dedicated asset management team who are in charge of coordinating communication with existing borrowers. Asset managers work together with investment and ESG teams in order to maintain close dialogue with our borrowers, including on ESG issues. Where applicable, as a responsible lender, we will guide or assist the borrower to ensure its on-going compliance with relevant standards and continuous improvement of ESG related plans.

2.6.1 Reporting

To make sure that all our stakeholders have access to relevant information on our ESG performance, presented in a way that reflects our internal strategic and management approach. This can be achieved through a range of reporting frameworks and methods.

- L&G has been a signatory to the **UN Principles of Responsible Investment (UNPRI)** since 2010 and participates in the real estate module of the survey and provides reporting to investors on real estate property performance of all entities on an annual basis.
- L&G reports climate-related disclosures in line with TCFD recommendations in the **annual Group Climate and Nature Report** and, where required, entity and fund-level reports, as per our regulatory requirements.
- L&G reports ESG performance into its **Group Annual Report**.

- L&G contributes to the **Active Ownership Report** which highlights engagement activities undertaken by the company to drive positive change.
- L&G reports on how the business is implementing its ESG strategy through an the **Responsible and Sustainable Investment Report**.
- L&G reports actions and disclosure in the **Group Social Impact Report**.

2.6.2 Exit

Exits from private debt investments are typically driven by the refinancing of existing loans, a change-of-control event or the completion of loan terms. It is, therefore, in a borrower's interest to maintain strong relationships with lenders, particularly when it is looking to refinance. This may provide us with further opportunities to influence how a borrower addresses specific ESG issues.

In the case of refinancing because of business growth, we rely on insights gleaned from the previous deal cycle and apply those to additional ESG due diligence or reporting requirements. The borrower will typically be open to more demanding ESG requirements in order to secure refinancing under mutually improved credit conditions.

2.7 Summary of Relevant Reports

Private Markets

[Responsible and Sustainable Investment Report 2022](#)

Asset Management

[Active Ownership Report 2023](#)

[Nature Framework 2024](#)

[UK Corporate Governance and Responsible Investing Policy](#)

Legal & General

[Legal and General: Climate and Nature Report 2023](#)

[Legal and General: Social Impact Report 2023](#)

[Legal and General Annual Report 2023](#)

Please note, this is not an exhaustive list, and it is subject to review as materials are updated.

Key Risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. Past performance is not a guide to future performance.

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