Park Square

Park Square Capital

ESG Policy

November 2020

Signatory of:

PRI Principles for Responsible Investment

Park Square Capital - Environmental, Social and Governance (“ESG”) Policy

I. Introduction

Park Square Capital, LLP (“Park Square” or the “Firm”) recognises the importance of ESG issues, and is a signatory of the UN-supported Principles for Responsible Investment (PRI).

Park Square has considered ESG factors in its decision making since inception. Given the limited upside and potentially significantly downside of credit investing, the focus of Park Square’s ESG analysis is on understanding downside risks.

Park Square believes ESG factors can potentially have a material impact on an issuer’s long-term financial performance as poorly managed ESG risks can lead to inefficiencies, operational disruption, litigation and reputational damage, which may ultimately impact an issuer’s ability to meet their financial responsibilities. Park Square supplements traditional financial analysis by reviewing ESG related management practices.

In summary, we believe well run businesses make better, lower risk, investments.

The Firm considers issues both as part of the detailed due diligence carried out before an investment, and as part of the ongoing monitoring of portfolio companies following an investment. Park Square will decline opportunities that it believes may provide an inappropriate exposure to ESG risks.

Park Square believes that incorporating ESG issues into its business decisions is an important part of its investment strategy and helps develop the sustainable long-term value of its investments.

Where possible, and consistent with its fiduciary responsibilities to its investors, Park Square works with financial sponsors and portfolio companies to address ESG issues through the following policies outlined in this document.

Park Square is committed to developing its ESG policy and integration in-line with internationally established guidelines and conventions for responsible investing, current industry best practices and is committed to engaging with peers in the industry and the PRI to promote ESG investing.

II. Definition

Park Square defines ESG risks as issues that can lead to inefficiencies, operational disruption, litigation and reputational damage, which may ultimately impact an issuer's ability to meet their financial responsibilities. Table 1. below provides examples of the ESG issues, please note that these are a broad overview and Park Square will consider a wider scope of ESG risks in relation to the specific countries and sectors a target or portfolio company is engaged in and will also analyse the company's systematic and idiosyncratic ESG risks.

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Park Square operates its investment policies in accordance with the OECD's Guidelines for Multinational Companies and supports the 17 Sustainable Development Goals (SDGs) and the 10 principles of the UN Global Compact outlined in Table 2. below.

Table 1. Examples of ESG issues considered

Environmental	Social	Human Capital	Governance
- Energy use and management	- Human rights and labour standards	- Labour and employee relations	- Business ethics
- Air quality	- Customer privacy and data security	- Employee health and safety	- Competitive behaviour
- Waste and hazardous materials ecological impact	- Product quality	- Employee engagement	- Risk management
- Sustainable land use	- Selling practices	- Diversity and inclusion	- Tax avoidance
- Plastics			- Executive pay
			- Corruption
			- Director nominations
			- Cyber security
			- Anti Money Laundering

Source: PRI, note these are examples and not an exhaustive list

Table 2. Principles of the UN Global Compact

Human Rights	Labour	Environment	Anti-Corruption
- Businesses should support and respect the protection of internationally proclaimed human rights; and	- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	- Businesses should support a precautionary approach to environmental challenges;	- Businesses should work against corruption in all its forms, including extortion and bribery.
- make sure that they are not complicit in human rights abuses	- the elimination of all forms of forced and compulsory labour;	- undertake initiatives to promote greater environmental responsibility; and	
	- the effective abolition of child labour; and	- encourage the development and diffusion of environmentally friendly technologies.	
	- the elimination of discrimination in respect of employment and occupation.		

III. ESG embedded within Park Square's investment process

Park Square has implemented a selective and disciplined investment approach, using a high-touch "private equity-style" due diligence process, and seeks to differentiate itself on the quality and depth of its investment analysis. The Firm considers ESG issues both as part of the detailed due diligence carried out before an investment, and as part of the ongoing monitoring of portfolio companies following an investment. Park Square will decline opportunities that it believes may provide an inappropriate exposure to ESG risks.

During Park Square's initial high-touch "private equity style" due diligence, the Investment teams will assess the target company's management competence and resources. Park Square usually has access to detailed materials including:

- Offering Memorandum
- Sponsor due diligence information
- Audited financials
- Environmental reports
- Market studies etc.

The thorough due diligence also includes meetings with management, reference calls with industry experts and, where appropriate, Park Square commissions its own proprietary due diligence.

The investment team are responsible for identifying and managing ESG issues within specific deals. Park Square believes this enhances our assessment of ESG as it is considered by the team closest to the target investee company. In order to support identification of ESG issues to highlight in Investment Committee submissions, the Investment team receive periodic formal ESG training covering best practice, emerging issues and case studies. However, this approach is enhanced and supported by utilising an ESG screening tool for each investment which is included in the Investment Committee Memorandum ("IC memo") appendix during the due diligence process.

The screening tool highlights typical sector and geography "hotspots" in which the company operates and company specific issues highlighted through a 3rd party risk research organisation. The sector risk is derived from the Sustainability Accounting Standards Board's ("SASB") Sustainable Industry Classification System ("SICS") and the geography risk is ranked across four key ESG and Corruption indices (Environmental Performance Index, Social Progress Index, Governance Sustainability Ranking and Corruption Perceptions Index). Where risks are deemed material, i.e. has the potential to impact the company's financial performance or valuation materially, these risks are highlighted in the main IC memo in the "Investments Concerns" section.

If there are any doubts regarding the company's governance, social and/or environmental practices, this would be flagged as a risk factor in the early stages of our due diligence process. Once an issue has been identified, Park Square will work closely with the control equity owner to understand the company's policies and procedures, as well as historic issues, which are in place to mitigate risk. The investment will either be declined at pre-screening stage, or if the level of risk is deemed immaterial or manageable, the investment opportunity and the risks associated with the company will be discussed at the Screening Committee and the Investment Committee.

Overview of Park Square's Investment Process

Business selection

Opportunity identified and logged in PSC database

- Weekly business selection meeting
- Formal pipeline of primary & secondary market opportunities
- ESG risks or concerns highlighted in briefing memo presented to entire Investment Team

Decision on whether to proceed or terminate

Priority opportunities

Consent to proceed with further evaluation

- Engage in discussions with sponsor / arranger
- Analyse, (i) sponsor's due diligence information, (ii) audited financials, (iii) environmental reports
- Prepare interim Investment Committee briefing on findings

Decision on whether to proceed or terminate

Due Diligence & structuring

Intensive evaluation of transaction

- Fundamental business analysis
- Full suite of legal, financial & commercial due diligence
- In-depth legal review of credit documentation
- Management meetings & site visits
- Third party checkings
- Drafting of loan documentation

Decision on whether to proceed or terminate

Investment committee

Formal presentation of investment case

- Weekly Investment Committee
- Consensus-based decision making
- Multiple follow up sessions as needed
- Rigorous focus on portfolio construction & optimisation
- IC template including ESG analysis

Decision on whether to proceed or terminate

Risk management

Ongoing engagement with portfolio companies

- Daily pricing alerts & weekly review of watch list
- Flash monthly reports on every company
- Detailed quarterly portfolio review process (including ESG review)
- Enhanced focus on any "watch-list" of underperformers, including weekly review at Executive Committee
- Active engagement with every portfolio

Recommended action if any

IV. Exclusion and negative screening

On a firmwide basis, Park Square will apply negative-screening and decline opportunities where companies demonstrate the following criteria[2]:

- trading in contravention of trade restrictions and weapons embargoes adopted by the United Nations or the European Union;
- non-compliance with OECD Principles of Corporate Governance and applicable country legislation and recommendations on corporate governance;
- primarily engaged in the operation of illegal gaming, casinos, racing tracks or lotteries;
- manufacture and/or sale of anti-personnel mines, cluster bombs and weapons of mass destruction, such as chemical or biological weapons;
- tobacco production and sale;
- human rights violations or indirectly encouraging or contributing to the violation of human rights;
- actions directly violating the freedom of association or indirectly encouraging or contributing to the violation of the freedom of association;
- direct or indirect involvement in any type of illegal child, forced or compulsory labor;
- direct or indirect involvement in employment based discrimination;
- poor occupational health and safety and poor working environments;
- serious or long-term damage to the environment;
- price gouging and anti-competitive practices; and
- corruption.

V. Decision making

Park Square typically invests in debt instruments and Park Square's key point of influence is therefore at or prior to investment and we actively engage with the private equity sponsor and company during our high-touch diligence process on ESG issues.

The responsibility for post-investment governance generally lies with the control equity owner although this can be supplemented by covenants within loan documentation.

Park Square will consider any ESG issues identified as an integral part of its decision making and decline investment opportunities that it believes may provide an inappropriate exposure to ESG risks.

Decisions relating to ESG risks or opportunities are recorded in the Investment Committee minutes and noted on an ESG issues logged by Park Square's Compliance team.

Note: [2] The restricted criteria outlined are non-exhaustive and would be assessed on a case-by-case basis.

VI. Monitoring

After making an investment, Park Square seeks to ensure that portfolio company managers maintain appropriate levels of oversight in the areas of audit, risk management and conflicts of interest, and will commission independent diligence where appropriate. The portfolio companies' financial and reputational risks are frequently assessed throughout Park Square's robust monitoring process:

- For each completed investment, the deal team circulates monthly "flash" reports on the performance of the company to all Park Square employees. These reports include information on recent revenue and EBITDA figures, as well as key performance drivers, leverage information and any notable information and business developments.
- A weekly review of the portfolio, including any noteworthy individual company reporting, is undertaken by the Executive Committee.
- On a monthly basis an internal management pack is produced and distributed to the Executive Committee which provides an update on both company and fund level performance.
- Park Square also conducts a formal quarterly portfolio review. This review is organised by the CFO and attended by the full Investment team, with each deal team providing a detailed update on the performance and development of the portfolio companies for which it is responsible. ESG and identification of any emerging ESG issues, including a review of company specific issues highlighted through a 3rd party risk research organisation, are a key part of this process.

In the event that Park Square is uncomfortable with how a portfolio company is managing its risks, a change in industry dynamics, or company performance, this would warrant a re-evaluation of the original investment thesis. If material concerns arise, a business is placed on a "watch list" and given a heightened degree of scrutiny by the Investment Committee. If the Investment Committee's concerns cannot be successfully mitigated or addressed, a decision to seek divestment will be made by the Investment Committee.

VII. Engagement

Park Square seeks to be accessible to, and to engage with, a range of stakeholders on key issues and challenges relating to ESG issues. The Firm considers ESG issues both as part of the detailed due diligence carried out before an investment, and as part of the ongoing monitoring of portfolio companies and will seek to ensure that portfolio company managers maintain appropriate levels of oversight in the areas of audit, risk management and conflicts of interest, and will independently commission specific diligence reports from consultants where appropriate. If, during Park Square's ownership an issue is identified, , Park Square will work closely with the control equity owner to understand the issue, and the plans in place to mitigate risk, noting that Park Square is primarily focused on investments in credit, rather than in control equity, and the responsibility for governance generally lies with the control equity owner.

With the increasing prevalence of ESG reporting from borrowers, Park Square seeks to include standard language in its loan documentations. These may include, Environmental Laws, Compliance and/or Claims, Sanctions (i.e. Anti-Corruption Law and Sanctions, Sanctioned Person, Sanctioned Country) and Material litigation.

VIII. Investor Engagament, Transparency and Communication

On a fund-by-fund basis, Park Square makes formal ESG commitments in side-letters with investors.

Park Square discusses the development of its ESG policy at the Annual General Meeting and has ESG updates calls with LPs upon their request.

In line with the proposed implementation of the Sustainable Finance Disclosure Regulation, Park Square will make entity-level disclosures and product-level disclosures in its annual report to investors and on its website.

Park Square seeks to provide timely information to limited partners and other stakeholders regarding the actions taken to address ESG issues, and to foster transparency in portfolio companies regarding these matters.

Park Square will disclose any material ESG factors which have a material impact on a portfolio company's value, to the extent that this is known. Where appropriate this disclosure will be made in quarterly investor letters and using the ILPA ESG reporting template from Q1 2021.

IX. ESG Governance and Resourcing

Park Square's Executive Committee has mandated the CFO, working with an ESG Working Group, to maintain oversight of ESG practices and suggest and implement improvements in line with market best practice. The ESG Working Group is comprised of 8 professionals including the CFO, Head of Reporting, members of the IR Team, the General Counsel and the Head of HR. The ESG Working Group has been holding quarterly and ad-hoc meetings since 2018.

As mentioned above, the investment team remain responsible for identifying and managing ESG issues within specific deals. They are expected to consider and highlight any ESG risks, concerns or opportunities within their Investment Committee memoranda.

The CFO, who heads the ESG Working Group, sits on the Investment Committee and has oversight on the ESG risks discussed at Investment Committee. If an issue is spotted and the Investment Committee is unable to get comfortable with the level of risk, they will either (i) commission more diligence on the matter, or (ii) decline the investment.

X. ESG Investment Related Policies

Park Square has adopted several complementary ESG investment related policies on specific topics.

These include the following:

- The UK Modern Slavery Act Statement;
- Diversity, Inclusion and Equal Opportunities Policy;
- Anti-Bribery & Corruption Policy; and
- Anti-Money Laundering Policy.

Policies are reviewed and updated when necessary to reflect changes in circumstances and actual practice.

For more information, please contact:

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