Park Square

Climate-Related Disclosures 2023

Park Square Capital, LLP

June 2024

Introduction

Park Square Capital, LLP and its affiliates[1] ("Park Square" or the "Firm") focus on delivering attractive risk-adjusted returns to investors, based on a rigorous assessment of all risks including analysis of material climate-related issues.

As a leading private credit investor, Park Square recognises a responsibility to monitor and engage with portfolio companies regarding climate risks to mitigate financial risk, as well as minimise the climate impact of its own operations. As a signatory of the Task Force on Climate-Related Financial Disclosures ("TCFD"), Park Square has incorporated climate risk into its governance, strategy and risk management processes.

The following report aligns with the TCFD's 11 recommended climate-related disclosures across four key pillars:

- Governance;
- Strategy;
- Risk Management; and
- Metrics and Targets.

This report discloses how climate change is considered both in the group operations and fund management activities.

For further information on Park Square's approach to responsible investment and climate change please see the Firm's responsibility webpage or contact ESG@ParkSquareCapital.com.

I. Governance

Park Square has a clear governance structure for Responsible Investment and Responsible Operations, which encompasses the oversight and management of climate-related risks and opportunities. This governance structure is illustrated in Figure 1 and ensures that investment activities are aligned with the Firm's position on responsible investment and climate change.

Park Square's Executive Committee acts as the governing body holding overall responsibility for the Firm. It sets the strategic direction, risk strategy, and internal governance, ensuring the Firm's long-term success. It further defines strategic objectives and evaluates progress against them. As part of this process, the Executive Committee considers all material influencing factors, including those related to climate change.

Reporting to the Executive Committee are a number of committees with delegated responsibilities including the Investment Committee, Risk Committee and ESG Committee.

The Executive Committee has mandated the ESG Committee to maintain oversight of ESG integration, which includes the monitoring of climate-related risks and opportunities.

Fund management

Park Square approaches climate-related risks and opportunities in a manner similar to its assessment of financial and other investment risks. Complementary to the Responsible Investment Policy, Park Square has adopted a Climate Addendum detailing the governance and processes for assessing and managing climate-related risks and opportunities at the investment level. Roles and responsibilities at the Firm with respect to the climate risk considerations in fund management activities are summarised in Figure 2.

The ESG Committee, chaired by the Co-Head of Direct Lending, is responsible for informing other committees, including the Executive Committee, of any climate-related issues that are material to the Firm's operations, strategy, and the performance of funds under management. To ensure a diversity of perspectives, the ESG Committee also includes professionals from across the business including the CFO & Head of ESG, COO & CCO, and General Counsel. This composition ensures that the management of the Firm is adequately represented, fostering robust discussions and informed decision-making processes. Additionally, the ESG Committee is supported by a dedicated ESG team.

Figure 1 : Responsible Investment Governance Structure

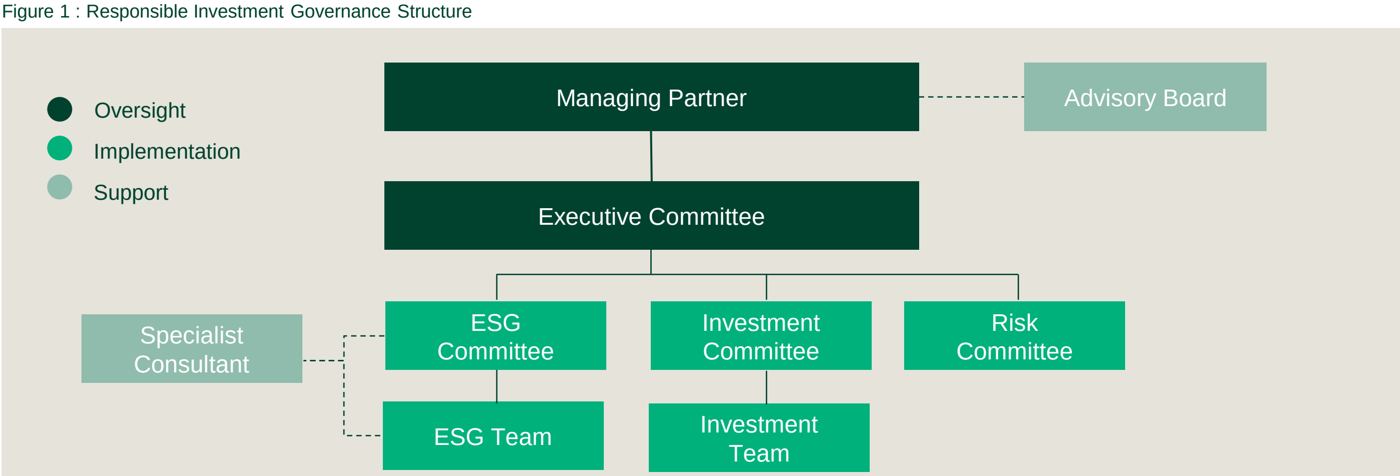


Figure 2 : Governance Responsibilities

Investment Committee	ESG Committee	ESG Team	Investment Team
• Oversee investment-related management of climate-related issues • Ensure that climate-related issues are thoroughly assessed before making any investment decision	• Maintain oversight of ESG integration, process and access to ESG data, including monitoring of climate-related issues • Inform other committees of any material climate-related issues	• Provide support to the ESG committee • Support the investment team with subject matter expertise throughout the lifecycle of a deal	• Identify and manage any climate-related issues that may impact portfolio company performance

The Investment Team are responsible for identifying any climate-related issues potentially impacting portfolio company performance. They deploy several tools developed by the in-house ESG Team, including a proprietary ESG Risk Assessment Toolkit with specific climate risk guidance. The Investment Team's analysis is also supported by the ESG Team and a third-party specialist ESG Consultant. Park Square believes having the investment team take the lead on climate-related issues for target investments enhances the assessment of climate-related issues as it is considered by the team closest to the respective company.

To ensure that the Investment Team is thoroughly briefed and trained on climate-related risks and opportunities, the ESG Team, in collaboration with a third-party ESG Consultant, provides ongoing training sessions on emerging ESG risks and sector-specific guidance. Sector-specific trainings focus on the most significant risks associated with each sector, including exposure to climate-related risks. Furthermore, in 2023, specialised training sessions addressing climate risk were conducted for both the Investment Team and the ESG Committee.

After making an investment, Park Square seeks to ensure that portfolio managers maintain appropriate levels of oversight on climate-related issues. The portfolio companies' ongoing and emerging climate-related issues, including their approaches to mitigating and managing the physical and transition risk-related impacts of climate change, are assessed throughout Park Square's robust monitoring process. For further details on the monitoring process and tools, please refer to the Risk Management section.

The ESG and Investment Committees are regularly updated on ESG considerations, including climate-related issues, throughout the lifecycle of a deal, from business selection to exit.

Group operations

Park Square's Risk Committee is responsible for identifying, managing, and escalating to the Executive Committee any risks that affect or could potentially affect the business and its operations.

The ESG Committee, as well as Park Square's legal and compliance teams, monitor regulatory developments related to climate change and provide updates to the Executive and Risk Committees as needed.

II. Strategy

Park Square recognises the cross-cutting nature of climate-related risks. Foreseen as a factor affecting the Firm's investment portfolio in the short, medium, and long term, climate-related risks can result in unexpected capital and operational expenditure across a company's lifetime, potentially materially affecting Park Square's investment.

Park Square evaluates both physical and transition risks in the investment process. Further elaboration on how climate-related risks are recognised, evaluated, and handled at the pre-investment and post-investment stages of the investment process is available in the Risk Management section.

In the risk identification process, Park Square analyses climate-related risks and opportunities across short-term (0 to 5 years), medium-term (5 to 10 years) and long-term (more than 10 years) horizons. Overall, Park Square considers transition risks as the more immediate concern, driven by the rapid enforcement of new regulations directly affecting portfolio companies as well as Park Square's operations in the short to medium term. Concerning physical risks, the evaluation indicates that Park Square's current vulnerability is relatively limited in the short term. Nevertheless, without effective adoption of climate change policies by the market over time, the potential exposure may increase in the long term. Figure 3 offers an overview of exemplary identified risks and their potential impacts.

Portfolio scenario analysis

Park Square has developed a bespoke scenario analysis tool to identify current and emerging portfolio exposure to climate-related risks as well as to investigate Park Square's strategic resilience. Scenario analysis is conducted annually to assess portfolio exposure to climate-related risks.

Figure 3 : Physical and Transition Risks

Category		Risk (-) / Opportunity (+) Factors	Potential Financial Impacts
Transition Risks & Opportunities	Policy and legal	- Increased regulatory focus and scrutiny on climate change (including carbon pricing, disclosure obligations, etc.)	- Increased operating costs through disclosure obligations - Potential fines in case of non-compliance with climate-related regulations - Investment value at risk for carbon-intensive businesses in the portfolio
	Market	- Potential change in demand for goods and services due to a shift in consumer preferences + Potential for new product offerings through increased capital needs for transition financing	- Investment value at risk for carbon-intensive businesses in the portfolio - Capital inflow through products catering to transition financing needs
	Reputation	- Heightened investor and stakeholder scrutiny on the Firm's climate strategy and risk management approach - Stigmatisation of certain sectors	- Reduced demand for products if investors' and stakeholders' climate-related expectations are not met - Investment value at risk for carbon-intensive businesses in the portfolio
Physical Risks	Acute & Chronic	- Increased severity of extreme weather events such as cyclones and floods	- Investment value at risk for most exposed businesses due to the destruction of company assets and supply chain disruptions

The latest assessment was performed for FY23 across all portfolio companies. By employing this tool across all investments and aggregating the results, Park Square can discern which borrowers might face heightened exposure to transition and/or physical risks.

Methodology

Transition risk analysis in the model is based on heatmaps developed by the UN Environment Programme Finance Initiative in collaboration with Oliver Wyman. These heat maps flag risk levels for a range of sectors across four key areas: Direct Emissions Cost, Indirect Emissions Cost, Low-Carbon CapEx, and Revenue. Further, Park Square has developed a supplementary carbon price risk analysis to evaluate the potential revenue implications arising from changing carbon prices spanning three distinct timeframes (2030, 2040, and 2050).

Physical risks are assessed with consideration of the countries where a company is headquartered. The analysis encompasses exposure to acute and chronic risks, including but not limited to sea level rise, crop yield, heat stress, productivity losses, increased incidence of diseases, and susceptibility to extreme weather events.

The methodology considers various scenarios:

- An 'orderly' transition scenario, limiting temperature rise to below 2 degrees: This scenario forms the basis of the heatmaps used in the transition risk analysis. The heatmaps reflect perceived risk levels anticipated under an ambitious transition, which envisions a substantial departure from the current economic model, exerting significant pressure across various sectors.
- The Announced Pledges Scenario by the International Energy Agency (IEA): This scenario reflects the extent to which announced ambitions and targets can deliver the emission reductions needed to achieve net zero emissions by 2050. It encompasses all significant national announcements made up to the conclusion of August 2023, including both 2030 targets and commitments toward achieving net zero emissions or carbon neutrality over the longer term. The scenario data was used for supplementary assessments of carbon pricing risk.
- The Representative Concentration Pathway 8.5 scenario by the Intergovernmental Panel on Climate Change: This scenario represents a 'Hot House World' scenario with potential high physical risks. The country-level physical risk indicators used in the analysis are derived from this pathway. Commonly referred to as the 'business as usual' scenario, it reflects a situation where substantial efforts to mitigate greenhouse gas emissions are absent.

Results

Transition Risk - One-fifth of the portfolio exhibits an overall moderate level of transition risk, while the remaining portfolio displays a moderately low to low transition risk according to Park Square's assessment. The moderately exposed proportion of the portfolio is primarily concentrated in companies providing products for use in building and construction and those in the industrials supply chain.

Further, the most pronounced transition risks primarily stem from the risk factors 'Indirect Emissions Cost' and 'Low-Carbon CapEx'. The 'Indirect Emission Cost' relates to the reliance on carbon-intensive inputs whereas the 'Low-Carbon CapEx' represents the extent of required investment in low-carbon capital to remain competitive. At the individual investment level, approximately five percent of the investments show a heightened risk regarding direct emission costs, yet the overall exposure to transition risk remains moderately low.

The supplementary carbon price risk analysis reaffirms the sectors most susceptible to financial impact, while also revealing a generally limited risk exposure. For the companies with the highest potential revenue impacts, Park Square conducted additional research on their risk management practices enabling an understanding of the residual risk.

Overall, Park Square is comfortable that the transition risk across the portfolio is low and is unlikely to materially adversely impact portfolio value.

Physical Risk - Regarding physical risk, Park Square finds that the primary locations of the portfolio companies are, on average, not exposed to severe physical risk impacts. The most relevant physical risks for the portfolio exposure are extreme weather events linked to severe wet and/or dry conditions.

Overall, the results indicate that the portfolio exhibits limited exposure to climate-related risks.

Group operations

Park Square has not identified any material exposure to physical climate risks regarding Park Square's physical presence in London, New York, Paris, Frankfurt, Stockholm, Tokyo, Seoul, and Luxembourg.

Further, the results of the group risk management process did not indicate either any upcoming regulatory changes related to climate change or other significant transition risks that are expected to have a material financial impact on Park Square.

Strategic action areas

Embedded within a strong culture of responsibility, Park Square has considered financially material environmental, social, and governance factors in its decision-making since its inception.

This commitment to operating responsibly is an integral part of Park Square's overarching strategy aimed at establishing an enduring firm with a commitment to strong fiduciary duty.

Park Square is dedicated to safeguarding the value of its investments by proactively identifying and managing risks. As such, Park Square considers it a fiduciary responsibility to recognise and address climate-related risks throughout the investment process, believing that these risks and opportunities extend beyond environmental factors to include socioeconomic dimensions of climate change.

Climate-related risks are fully integrated throughout the lifecycle of an investment. In 2023, Park Square strengthened the climate risk guidance in the proprietary ESG Risk Assessment used by the investment team and introduced a new module for conducting climate scenario analysis. Further, Park Square prioritises the quantification and ongoing monitoring of climate-related metrics, collecting and tracking meaningful key performance indicators (KPIs) across the investment portfolio. The applied monitoring approach is detailed further in the Metrics and Targets section.

Additionally, Park Square funds subject to article 8 of the EU SFDR promote environmental characteristics aligning with the Sustainable Development Goal 13 "Climate Action".

To foster sustainability and climate-related expertise within the Firm, Park Square conducts regular training sessions for the Investment Team and the ESG Committee on ESG matters, including climate-related risks.

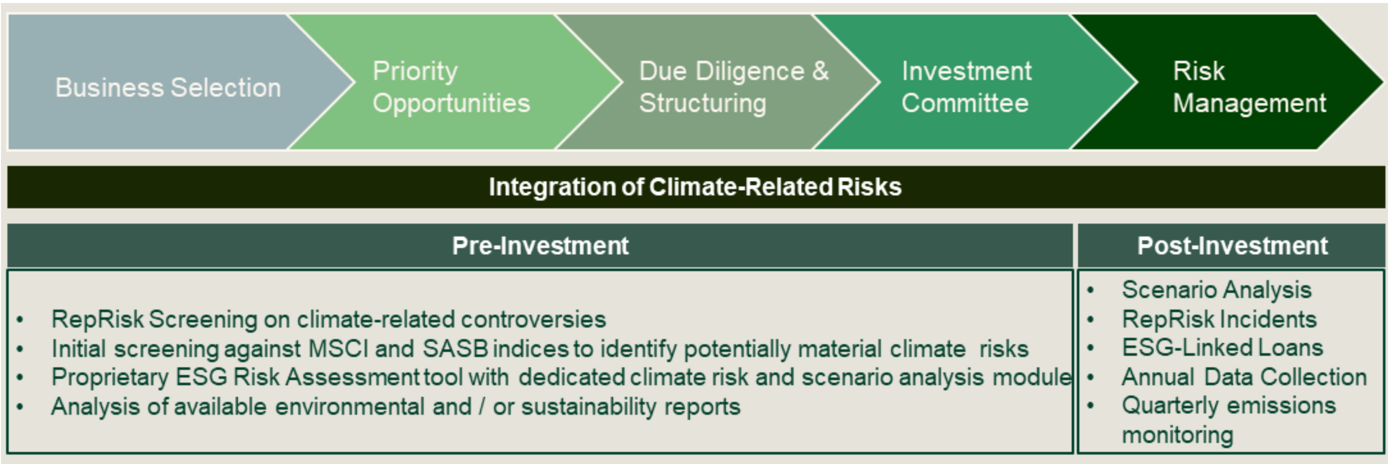
III. Risk Management

Given the limited upside and potentially significant downside of credit investing, the focus of Park Square's ESG and climate analysis is on understanding downside risks. Poorly managed climate risks may result in unexpected capital and operational expenditure across an investment's lifetime, which may ultimately impact a borrower's ability to meet their financial responsibilities or negatively impact company profitability.

Fund management

Park Square considers climate-related issues both as part of the detailed due diligence carried out before investment and as part of the ongoing monitoring of portfolio companies. The following sections outline how climate-related risks are integrated into entire investment process. Additional details on Park Square's general approach to responsible investment are described in the Responsible Investment Policy.

Figure 4 :ESG Integration in the Investment Process



Pre-Investment: Due Diligence

During the pre-investment stage, Park Square conducts thorough due diligence to assess climate-related risks using a range of methods.

- RepRisk – Third-party provider identifies any public, historic climate-related controversies.
- Initial screening tool – Where SASB and / or MSCI materiality frameworks flag climate change risk as potentially material to a sector, this will be identified as an area for further investigation. Where companies are operating in countries ranked in the bottom quartile of the Environmental Performance Index, climate risk is flagged as an area for further investigation.
- Collection of sustainability indicators – Where available, climate-related indicators are collected during the due diligence process such as greenhouse gas ("GHG") emissions, carbon intensity, exposure to the fossil fuel sector and renewable energy consumption.
- ESG Risk Profile – Park Square's ESG Risk Assessment Tool contains dedicated climate guidance to assist deal teams in their assessment of the potential exposure to climate risk.
- Analysis of available environmental and/or sustainability reports.

Post-Investment: Monitoring and Engagement

Following investment, Park Square employs a comprehensive approach to monitor and engage with climate-related risk in its portfolio.

- Scenario Analysis – Park Square completes high-level, sector-based scenario analysis across the portfolio annually to identify potential exposure to climate risks.
- RepRisk – RepRisk provide ongoing alerts to any climate-related incidents at portfolio companies. RepRisk ratings are also included in Park Square's quarterly portfolio review where the Investment Team are expected to highlight emerging risks or incidents identified in the quarter.
- ESG-Linked Loans – Park Square holds a number of loans where the margin is tied to the achievement of certain KPIs. Often, these KPIs are related to GHG emissions reduction and management.
- Annual Data Collection – Park Square's annual ESG questionnaire contains specific metrics related to climate risk including scope 1, 2 and 3 GHG emissions, fossil fuel sector exposure, energy and renewable energy consumption.

Material climate-related issues will be escalated for consideration by the ESG and/or Investment Committee. Should Park Square become concerned about a portfolio company's climate risk management practices, or if changes in industry dynamics, competitive positioning, or company performance warrant a re-evaluation of the original investment thesis, the business is placed on a 'watch list' and subject to heightened scrutiny by the Investment Committee. If the concerns cannot be fully mitigated/addressed, a decision to seek divestment will be considered by the Investment Committee.

Group operations

Park Square's risk management is implemented and overseen by the Risk Committee. The risk management framework incorporates an analysis of the impact of each material risk on the Firm, its clients, the market, the probability of each risk occurring, and the procedures in place for mitigation.

Park Square maintains a risk register which is reviewed on an ongoing basis. To monitor and manage existing and emerging regulatory requirements, the Firm has contracted an external compliance consultant and engaged a law firm for regular updates on any laws that might affect Park Square. Any relevant changes are discussed in regular compliance team meetings and escalated further, where relevant.

IV. Metrics and Targets

Park Square recognises the importance of robust metrics and targets to effectively assess and manage climate-related risks and opportunities. In an industry where the availability of consistent, comparable climate-related data remains a challenge, Park Square is committed to systematically gathering and monitoring such data. Through the measurement of KPIs and tracking of progress, Park Square aims to enhance transparency and mitigate potential climate-related financial risks.

Fund management

At the investment level, Park Square employs a comprehensive set of metrics to evaluate the environmental impact and climate-related risks inherent in the investment portfolio. These metrics provide valuable insights into carbon intensity, target-setting practices, and the overall environmental impact of portfolio companies.

Key Metrics

- GHG emissions - Park Square measures GHG emissions across all three Scopes - Scope 1, 2, and 3. By adopting this approach, Park Square gains a holistic view of the emissions associated with its investment activities.
- Weighted Average Carbon Intensity (WACI) – Calculating the weighted average carbon intensity for all funds provides an estimate of emissions in relation to revenue generated. This metric is calculated using a combination of directly sourced and estimated data for both Scope 1 and 2 emissions, as well as for combined Scope 1, 2 and 3 emissions.
- Share of Portfolio with GHG Emissions Reduction Targets (active or planned) – Park Square evaluates the percentage of portfolio companies that have established or plan to establish short-term GHG emissions reduction targets. This metric reflects the degree to which the portfolio companies are proactively addressing climate risks and fostering their resilience.
- Share of Portfolio involved in the Direct Production of Fossil Fuels – Park Square evaluates the percentage of the portfolio that derive revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels.
- Share of Portfolio Energy Consumption from Renewable Sources – Park Square evaluates the percentage of energy consumption within the portfolio that is sourced from renewable energy. Energy sources include geothermal, solar, sustainably sourced biomass (including biogas), hydropower, and wind.

Figure 5 provides an overview of the key metrics as of FY23 and FY22. The data reveals a promising trend, with a significant share of portfolio companies (63% in FY23 and 61% in FY22) demonstrating commitment to reducing their baseline emissions.

Group operations

At the Firm level, Park Square measures its environmental footprint and collects, monitors, and reports GHG emissions data. For FY22, Park Square completed the Firm's first full assessment of its emissions profile with a third-party consultant in line with the Carbon Neutral Protocol. Park Square's total GHG emissions for the FY22 period were 288.6.

Park Square is a certified carbon neutral organisation in collaboration with Climate Impact Partners.

Figure 5: Climate KPIs

Metric[1]	Unit	Value (FY23)	Value (FY22)	Benchmark[2]
Financed GHG emissions (Scope 1 and 2)	tCO2e	262,355.8	329,157.0	n.a.
Financed GHG emissions (Scope 1, 2 and 3)	tCO2e	1,210,211	n.a.	n.a.
Portfolio WACI (Scope 1 and 2)	tCO2e/$M	41.9	58.4	129
Portfolio WACI (Scope 1, 2 and 3)	tCO2e/$M	278.8	n.a.	865
% of companies involved in the direct production of fossil fuels	%	0%	0%	n.a.
Average renewable energy consumption	%	27%	31%	10%
Share of Portfolio with GHG Emissions Reduction Targets or a Decarbonisation Strategy (active or planned)	%	63%	61%	n.a.

Notes: (1) Metrics provided for Park Square's core funds, excluding SMAs and co-investment vehicles (2) Scope 1 & 2 WACI benchmarked against the MSCI Europe Index October 2022, Scope 1, 2 and 3 WACI benchmarked against MSCI Europe index May-24, Renewable Energy benchmark sourced from Novata Universal Benchmarks 2023

Compliance Statement

This report is Park Square's inaugural climate disclosure covering the period 1 January 2023 to 31 December 2023 and seeks to aligns with the TCFD's 11 recommended climate-related disclosures. In the reasonable view of the relevant committees of Park Square Capital, LLP, the disclosures in this report comply with the TCFD recommendations and entity-level reporting requirements set out in the FCA's ESG sourcebook.

M. Maguire

Matthew Maguire, Chief Financial Officer

TCFD Recommendation	Page Reference
Governance	
Describe the board's oversight of climate-related risks and opportunities	2 - 3
Describe management's role in assessing and managing climate-related risks and opportunities.	2 - 3
Strategy	
Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	3
Describe the impact of climate-related risks and opportunities on the organization's businesses,	4
Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	5
Risk Management	
Describe the organization's processes for identifying and assessing climate-related risks.	5 – 6
Describe the organization's processes for managing climate-related risks.	6
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	7
Metrics and Targets	
Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	7
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	7
Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	7