



RESPONSIBLE INVESTMENT, ENVIRONMENTAL, SOCIAL AND GOVERNANCE STATEMENT

**ALCENTRA NY, LLC
ALCENTRA LIMITED**



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PURPOSE

Responsible investing is often referred to as Environmental, Social and Governance (“ESG”), sustainable and or socially responsible investing. In formulating and implementing a responsible investment policy, Alcentra must take into account its responsibilities towards protecting its brand as well as all of its stakeholders, including its clients, shareholders and employees with regard to investment and performance, as well as its position as an agent acting on behalf of these clients.

Responsible investment forms part of our investment research process. Alcentra believes that responsibly managed companies are better placed to achieve sustainable competitive advantage and provide strong long-term growth.

This Policy sets out the approach to identification and reporting of ESG risks and lays out our approach to integrating ESG within our investment process, so as to enable oversight of ESG risk exposure at the credit and portfolio level.

Alcentra became a signatory of the UN supported Principles for Responsible Investment (“PRI”) in June 2018 and is subject to their reporting standards and requirements.

In January 2020, Alcentra became an official supporter of the Task Force on Climate-Related Financial Disclosures (“TCFD”). As supporters, Alcentra advocates for the recommendations set by the TCFD and aims to implement them within our own investment practices.

DEFINITION

In line with the PRI, ESG risks involve non-financial aspects to an issuer’s operations which may affect its ability to meet its financial commitments. ESG risks and opportunities vary by country and industry and may have a bearing in a number of ways. Examples of ESG risks that can be exposed include the following:

REGULATORY RISKS

- Changes to regulation (e.g. laws on environmental pollution, waste management, company law, governance codes)
- Laws surrounding access to raw materials and/or land use directly affect unprepared firms

REPUTATIONAL RISKS

- The threat of litigation (e.g. unsafe products or services)
- Fines and negative press

GOVERNANCE

- Poor board oversight and composition may result in management acting against shareholders’ best interests, leading to instability, scandals and future debts

ESG analysis can also uncover opportunities and support strong firm growth and financial performance. Early preparation for emerging policy can have cost implications (e.g. reduced cost of capital and or environmental improvements).



PROCESS

ESG risks and related issues are assessed at credit issuer level as part of the corporate credit analysis process carried out by Alcentra's credit analysts.

During the credit analysis process an Alcentra analyst may receive or request independently commissioned third party environmental and legal due diligence reports, which are reviewed by the credit analyst and reflected in the credit papers presented to the relevant Regional Investment Committee. These reports highlight actual, or potential, environmental or legal issues, including detailing any outstanding litigation in which the borrower may be involved. In the event these reports note material issues or risks which were considered unsustainable or potentially damaging to the company's ongoing operations/ability to service its liabilities, it is highly unlikely that an investment would be recommended/approved.

Labour and management practices will generally be considered as part of the credit analysis process. Corporate Governance together with composition, integrity and past experience of the Executive Management teams/Boards, forms an important component of our analysis and decision-making process.

All Regional Investment Committees take ethical considerations (identified by analysts as part of their ESG review) into account prior to investments being made. Each Investment Committee takes seriously Alcentra's position in terms of ethics and reputation which, as well as the Alcentra brand, extends to reputational risk on behalf of its client base and its parent company BNY Mellon.

We may exclude issuers or sectors from our investable universe where we believe the ESG risks may have an impact on the operational and financial performance.

Credit analysts are required to identify, quantify and note any key ESG risks within the credit research full paper.

ENGAGEMENT

Alcentra's focus when engaging management teams and corporate Boards is to analyse and make financial judgements based on the risks and rewards. The relative importance of ESG in our investment decision will depend on its potential impact on the credit. It is important to note that debt holders do not have the same voting rights as shareholders, but can still contribute to a company's strategy.

As Alcentra is a sub-investment grade corporate credit manager, voting is not material within the context of its investment's activity.

GOVERNANCE

Alcentra has an ESG Working Group which is responsible for coordinating our internal and external efforts in this area. The ESG Working Group is responsible for Alcentra's ESG policy and assists in providing feedback to the wider firm and externally to existing and prospective investors. The ESG Working Group comprises of individuals that represent Risk, Investment and Business Development areas of Alcentra, to drive responsible investment across all our strategies.

In addition to the ESG Working Group, we have a wider ESG virtual team which includes additional members of the Investment and Business Development teams in case additional input is required. The virtual team is organised with the objective that various areas of the business can come together and contribute to our ESG initiatives and assist with the determination and identification of ESG risks.

Alcentra's ESG Working Group is able to draw on the assistance of BNY Mellon Manager Research Group ESG specialists.

This policy is reviewed on a regular basis to ensure changes are regularly updated.



APPENDIX

Examples of ESG issues as per the Principles for Responsible Investment

Environment (E)	Examples of environmental issues include: biodiversity loss, greenhouse gas ("GHG") emissions climate change impacts, renewable energy efficiency, resource depletion, chemical pollution, waste management, depletion of fresh ocean acidification, stratospheric ozone depletion, changes in land use, and nitrogen and phosphorus cycles.
Social (S)	Examples of social issues include: activities in conflict zones, distribution of fair trade products, health and access to medicine, workplace health safety and quality, labour standards in the supply chain, child labour, slavery, relations with local communities, human capital management, employee relations, diversity, *controversial weapons, and freedom of association.
Governance (G)	Examples of governance issues include: executive benefits and compensation, bribery and corruption, shareholder rights, business ethics, board diversity, board structure, independent directors, risk management, whistle-blowing schemes, stakeholder dialogue, lobbying, and disclosure. This category may also include business strategy issues, both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented.

Standard Loan Market Association

Standard Loan Market Association (LMA) language, now incorporated in a loan facility agreement, outlines that the borrower "must comply with Environmental Law; obtain, maintain and ensure compliance with all requisite Environmental Permits; and implement procedures to monitor compliance with and prevent liability under any Environmental Law".

***Controversial Weapons:**

The production and use of certain weapons (defined as controversial) has been deemed unacceptable under international conventions, and even illegal within certain jurisdictions.

Alcentra defines controversial weapons as: cluster bombs and munitions, landmines, depleted uranium weapons and chemical and biological weapons.

Treaties and Conventions – Cluster Munitions, Landmines and Biological Weapons

Cluster Munitions



The Convention on Cluster Munitions (CCM) prohibits all use, stockpiling, production and transfer of Cluster Munitions. Separate articles in the Convention concern assistance to victims, clearance of contaminated areas and destruction of stockpiles. The Convention was adopted in Dublin by 107 states on 30 May 2008 and signed on 3 December the same year. The Convention became binding international law for the States Parties when it entered into force on 1 August 2010. <http://www.clusterconvention.org/index.php>

Landmines

The Ottawa Treaty or the Mine Ban Treaty, formally the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction, completely bans all anti-personnel landmines (AP-mines). As of April 2010, there were 156 States Parties to the treaty. Two states have signed but not yet ratified while thirty-seven states are non-signatories to the Convention, making a total of 39 states not party. Besides stopping the production and development of anti-personnel mines, a party to the treaty must destroy all the anti-personnel mines in its possession within four years. Just a small number of mines is allowed to remain for training (mine-clearance, -detection, etc.). Within ten years after signing the treaty, the country should have cleared all of its mined areas. http://www.un.org/Depts/mine/UNDocs/ban_trty.htm

Biological Weapons

The Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction (more commonly known as the Biological and Toxin Weapons Convention (BTWC)) was simultaneously opened for signature in Moscow, Washington and London on 10 April 1972. The Convention bans the development, production, stockpiling, acquisition and retention of microbial or other biological agents or toxins, in types and in quantities that have no justification for prophylactic, protective or other peaceful purposes. It also bans weapons, equipment or means of delivery designed to use such agents or toxins for hostile purposes or in armed conflict. The actual use of biological weapons is prohibited by the 1925 Geneva Protocol and Article VIII of the BTWC recognizes that nothing contained in the Convention shall be construed as a derogation from the obligations contained in the Geneva Protocol. As of November 2001, 162 states had signed the BTWC and 144 of these had ratified it. <http://www.opbw.org/>



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Investments in sub-investment grade debt are speculative and involve special risks, and there can be no assurance that an account’s investment objectives will be realized or that suitable investments may be identified. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. An investor could lose all or a substantial portion of his or her investment. No investment process is free of risk and there is no guarantee that the investment process described herein will be profitable. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

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