ALCENTRA LIMITED

Annual disclosure of risk management objectives and policies, own funds and requirement and remuneration policies and practices

31 December 2022

1 Overview

1.1 Background

Alcentra Limited ("Alcentra" or "the Company") is a wholly-owned subsidiary of Alcentra Asset Management Limited ("AAML" or the "Parent"), which is an indirect wholly-owned subsidiary of Franklin Resources, Inc. ("Franklin"). Alcentra was formed in March 2003 through the acquisition of Barclays Capital Asset Management Limited from Barclays Bank Plc. In January 2006, Alcentra became a subsidiary of Bank of New York Mellon ("BNYM"), within its group of investment management boutiques. On 31st May 2022 BNYM announced the sale of Alcentra to Franklin, with the transaction being completed on the 1st of November 2022.

Alcentra is an asset management business specializing in sub-investment grade debt-capital market products in Europe and is part of the wider Franklin corporate group. Alcentra adopts, leverages and contributes to Franklin's wider strategy, values, policies, procedures and approach to community engagement. Franklin's corporate values are reflected throughout the organisation and are made available through its annual report on its website www.franklinresources.com.

Alcentra is regulated by the Financial Conduct Authority ("FCA") and, as a non-SNI MIFIDPRU investment firm, it is subject to MIFIDPRU rules, including the requirement to disclose the below information annually:

1. Risk management objectives and policies – MIFIDPRU 8.2
2. Own funds – MIFIDPRU 8.4
3. Own funds requirement – MIFIDPRU 8.5
4. Remuneration polices – MIFIDPRU 8.6

1.2 Company overview

Alcentra provides investment management and related services to investors globally, through investment products focused on sub-investment grade debt capital markets in Europe and is focused on understanding its customers' investment challenges and needs, working to meet these demands through engagement, collaboration and construction of appropriate solutions that seek to deliver consistent, risk-adjusted performance.

Since inception, Alcentra has evolved its product mix from a predominantly Collateralized Loan Obligation ("CLO") business to a broader platform with an all-encompassing sub-investment grade credit suite of products. Alcentra offers solutions for Senior Secured Loans, High Yield Bonds, Direct Lending, Special Situations, Structured Credit and Multi-Strategy Credit.

Alcentra's core strategy is focused on retaining its market position as one of the leading investment management companies in the sub-investment grade credit market through a strategy of organic growth of its client base and product offering. To achieve this strategy, the business aims to:

- defend its leading CLO franchise by launching new CLOs in Europe to cover the amortisation/call of older vintage CLOs;
- continue to grow AUM in the open-ended vehicles: European Loan Funds, and Structured Credit strategies;
- grow the Special Situations, Structured Credit and Direct Lending businesses with the launch of additional closed end funds and separately managed accounts ('SMAs');
- build on the Multi-Strategy Credit success, offering all the above global solutions in a single strategy to investors; and
- retain its talent pool by paying market compensation, and where appropriate, aligning interests of the team with the investor base.

Alcentra will continue to focus on producing long-term risk adjusted investment performance and on providing high quality customer service to our clients. Alcentra's clients are the funds themselves, with the underlying investors typically being institutional clients, such as pension funds and insurance companies, or professional investors.

2 Risk Management Objectives and Policies

Alcentra's board (the "Board", please see description below) is focused on ensuring the Company embeds an effective Risk Management Framework, consisting of 1. Corporate Risk Management and 2. Investment Risk Management (see below). To effectively govern the risk of the Company, the Board mandates various governance committees and structures which oversee and manage the relevant risks as outlined below:

a) Risk Appetite Statement

b) Risk Control Framework

c) Risk and Control Self-Assessment

d) Risk Monitoring, including Key Risk Indicator reporting and, in relation to Investment Risk, Quarterly Risk and Performance Meetings

e) Operational error identification, investigation, and reporting

f) Monitoring and remediation of control gaps through internal risk assessment, compliance monitoring and internal audit reviews

g) Alcentra's ICARA process

2.1 Statement of Risk Appetite

Risk is a fundamental characteristic of Alcentra's business and is inherent in every transaction undertaken. As such, the Company's approach to risk taking and how it considers risk relative to reward directly impacts its success. Therefore, Alcentra has established limits on the level and nature of the risk that it is willing and able to assume in achieving its strategic objectives and business plan.

Alcentra's Risk Appetite Statement, which is set by the Board, serves this purpose and guides its decision-making processes, including how it pursues its business strategy and the method by which it manages risk and determines whether the risk position is within appetite.

Alcentra is a source of innovative investment solutions for its clients, where key risks faced are operational, inclusive of the failure to meet fiduciary obligations. Strategic risk may arise from the failure to remain relevant and competitive, and some credit risk and market risk may arise from exposure to foreign exchange or seed capital investments. Additionally, the Board recognises that reputational risk could arise from shortcomings in any of these areas.

Alcentra is committed to ensuring all business activities are conducted with a clear understanding of the risks, maintaining a robust risk management framework, delivering excellence, ensuring transparent disclosure, and treating customers fairly, and meeting the expectations of major stakeholders, including clients, shareholders, employees, and regulators. The Board expects a culture of honesty and openness from all staff with a bias to escalation in case of doubt.

2.2 Risk Management Framework

Through its responsibility to ensure effective internal risk management the Board ensures that a robust Risk Management Framework is embedded within the business and that effective escalation channels exist to ensure any issues are identified and remediated.

There are two key pillars of Alcentra Risk Management Framework:

1. Corporate Risk Management - risk management of the risks inherent in the operational activities of the Company; and
2. Investment Risk Management - risk management of the client funds.

Alcentra's Board is supported in this objective through the establishment of local independent risk and compliance specialists (the "Risk and Compliance Team"), who support and guide the business in the embedding and maintenance of the risk and regulatory management requirements.

2.2.1 Risk Committee

The Alcentra Risk Committee meets on a quarterly basis; oversees the risk framework for Alcentra (which is detailed in Alcentra's Corporate Risk Policy); and makes recommendations to the Board for setting up risk appetite and risk mitigation.

Agenda items include Risk and Compliance; IT; Operations; Outsourcing/Supplier Management; Conflicts; Allocations; Best Execution; and Open Actions. The Risk Committee may escalate matters to the Board.

The voting members of the Risk Committee include:

- an independent Non-Executive Chair
- a Non-Executive Director (NED)
- Alcentra's Head of Risk & Compliance
- Alcentra's Head of Finance

Other attendees from the Risk and Compliance Team and the rest of the Company may be invited where appropriate.

2.3 Risk management function

A key aspect of Alcentra's Risk Management Framework is the establishment of the 'Three Lines of Defense' model. The first line of defense ("1LOD") includes Operations, Portfolio Management, Business Development, Finance, IT and other business functions that provide the day-to-day delivery of the business.

The 1LOD owns and is accountable for the identification, assessment and management of risks that arise through the course of its business and service provision.

The second line of defense ("2LOD") consists primarily of the Risk and Compliance Team. A key responsibility of the 2LOD is oversight and challenge of the 1LOD's identification, assessment and management of its risks.

The third line of defense ("3LOD") is Internal Audit, which is organizationally independent from both the first and second lines of defense. A key responsibility of the third line is to opine on the adequacy of the framework and governance processes and undertake periodic reviews.

The independent 2LOD Risk and Compliance Team also has oversight of the adequacy of controls of the investment process. In addition, issues; errors; guideline breaches; and other matters pertinent to the Company's overall risk framework are subject to the oversight of this function and to the Risk Committee.

Alcentra's approach to investment risk management and operational risk management is to ensure that all material risks to which Alcentra is exposed are defined, understood and effectively managed. Fundamental to both risk frameworks is the establishment of the aforementioned three lines of defense model with clear roles and responsibilities. The Risk and Compliance Team is independent from all of the investment teams and may escalate matters directly to the Risk Committee and to the Board

2.3.1 Operational Risk

The Operational Risk team serves to challenge and provide independent subject matter expertise to the Alcentra business in respect of Alcentra's operational risks and controls, including appropriate resolution of errors in line with the Alcentra Errors & Breaches policy.

2.3.2 Investment Risk

The Investment Risk team serves to challenge and provide independent subject matter expertise to the Alcentra business for Investment Risk, which is defined as the variability over a specified time horizon (e.g. days, months, years) in the market value of a portfolio of assets due to the portfolio's sensitivity to various underlying influences (often referred to as 'exposures' or 'risk factors'), including but not limited to:

- Credit-specific issues.
- Financial market trends and stability.
- Industry / sector dynamics.
- Fundamental factors; and
- Macro-economic factors.

2.4 Risk Management process and controls

2.5 Risk and Control Self-Assessment

The Risk and Control Self-Assessment ("RCSA") is the Company's primary risk and control identification and assessment tool, and is used to:

- Identify material risks and key controls in light of current/future business objectives and overall general business environment. Further, it helps senior management to gain an understanding of the level of risk that each business/business partner exposes the Company to by conducting their activities, thereby facilitating risk-sensitive resource allocation.
- Assess the inherent risk rating associated with each of the identified operational risks.
- Assess whether the key controls are designed and operating effectively to mitigate residual risk exposures to the level required by the risk appetite statement.
- Measure the residual risk exposure and identify risks outside of Board-approved risk appetite.
- Document and track risk mitigation efforts and monitor progress of action plans.
- Provide a repository for documenting and tracking risk mitigation action plans (including risk acceptance) ultimately to help prevent or minimize:
    - Financial losses;
    - Errors or service delivery failures, especially those with visible impact on customers and/or internal users;
    - Compliance breaches (including regulatory compliance breaches); and
    - Reputational Damage.

2.5.1 Key Risk Indicators

Key Risk Indicators are in-place to monitor residual risk levels against risk appetite. These are reported to the Risk Committee quarterly which may refer matters, as required, directly to the Board.

2.5.2 Quarterly Risk and Performance Meetings

In relation to funds under management, the relevant portfolio manager has day to day responsibility for portfolio management and is supported by specialised credit analysts who provide a fundamental approach to credit analysis. The core components of Alcentra's investment philosophy are a combination of top-down investment strategy analysis, rigorous manager evaluations and detailed on-going monitoring.

In addition to the above, investment risks are monitored and reported by the Investment Risk team (and for applicable funds, an AIFM), which operates independently of the portfolio management functions. Risk metric reporting is provided to each Quarterly Risk and Performance meeting ("QRPMs") for review and action. Attendees include the Executive Chairman, Investment Risk Manager, Portfolio Managers, and Compliance. The Investment Risk team also has full access to all holdings, portfolio and firm wide risk characteristics, risk concentration analysis, scenario and stress testing results and the regular risk tolerance reporting.

2.6 Assessment of appropriateness of risk management process.

The ICARA (internal capital adequacy and risk assessment) process is the collective term for the internal systems and controls that a firm must operate to identify and manage potential material harms that may arise from the operation of its business, and to ensure its operations can be wound down in an orderly manner. The regulatory requirement to conduct an ICARA resides with Alcentra, and the outcomes of the assessment are subject to approval by the Board. The Board has delegated the day-to-day governance of the ICARA process to the ICARA Working Group (IWG) which has voting member representation from the Risk and Compliance Team and finance.

Alcentra's ICARA document has been prepared in accordance with MIFIDPRU 7.8 and appropriately covers all risks relevant to the business. The ICARA content and processes are aligned with risk management documentation, and the relevant harms (risk to firm, risk to client, risk to market) that should be considered when performing risk assessments and management thereof.

Key uses of the ICARA include:

- own funds and liquid asset analysis;
- own funds projections based on business events;
- new product considerations;
- changes in personnel;
- business disruption events; and
- significant business change.

The content of the ICARA document is reviewed and approved at least annually by the Board, which includes review and approval of the key assumptions underlying the ICARA document.

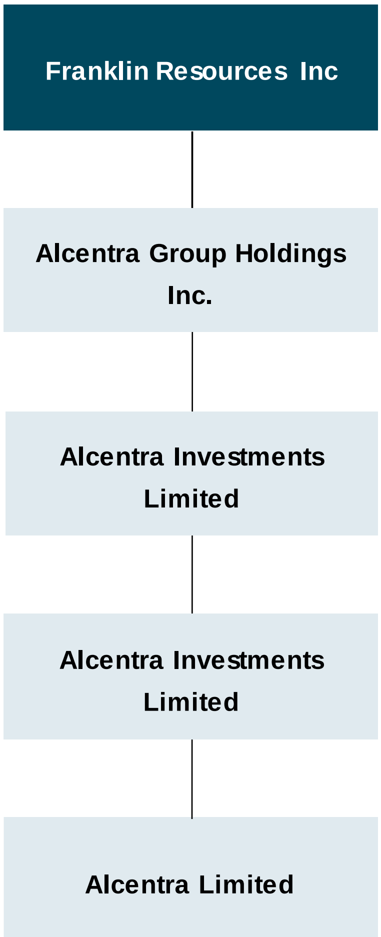
2.6.1 ICARA: own funds

Maintaining sufficient regulatory own funds reserves is monitored and managed by the Board with any major deviation from budget or own funds forecasts investigated and considered when making material decisions. On a day-to-day basis, the finance team are responsible for ensuring that business change is reflected in the own funds maintained and that the company continues to have sufficient reserves to satisfy the regulatory requirements. In addition, all business functions are responsible for appropriately managing their risks and considering the impact on own funds as part of decision-making.

3 Governance arrangements

3.1 Corporate structure

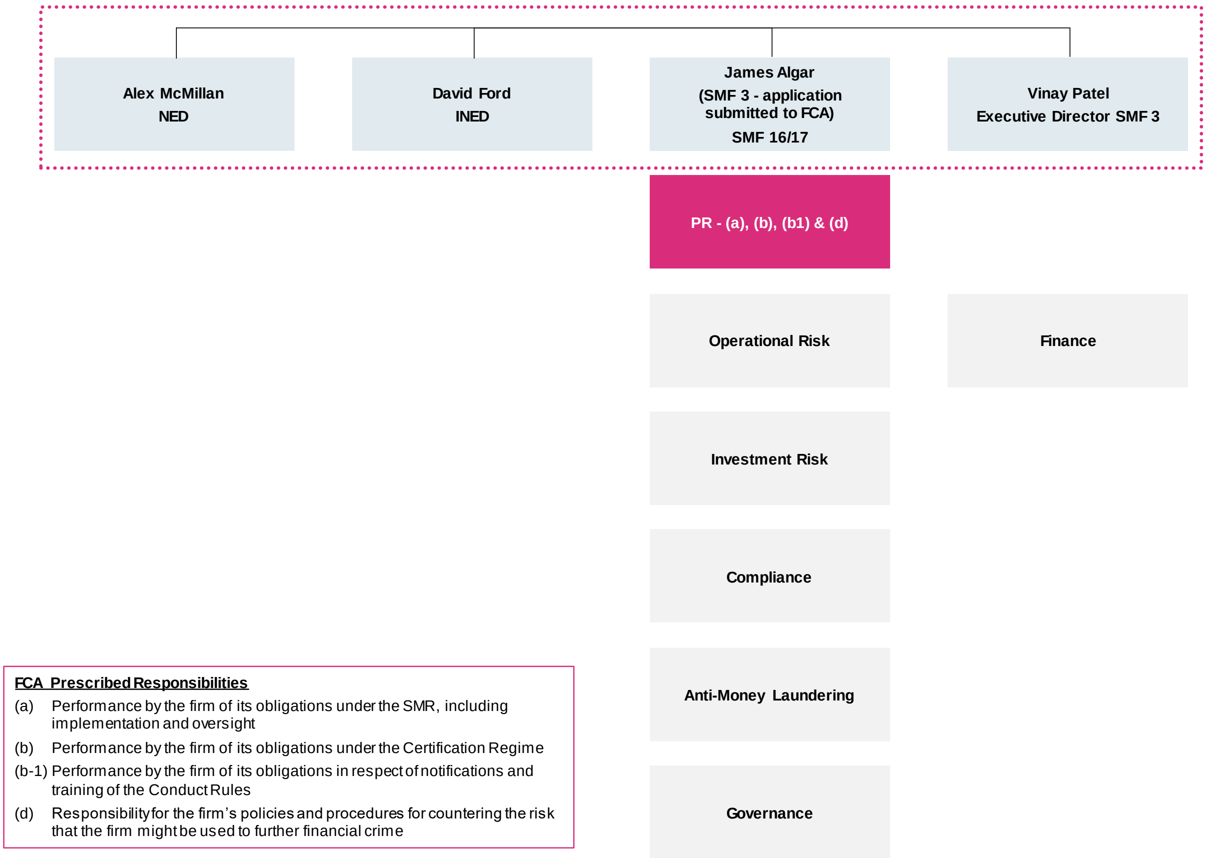
The following chart illustrates the Company's corporate structure. Alcentra Limited is a wholly owned subsidiary of Alcentra Asset Management Ltd which is an indirect wholly owned subsidiary of Franklin.



3.2 The Board of Directors

The Board embraces good practice in corporate governance and, as such, is charged with the responsibility for providing oversight of the activities and internal controls within the Company. The Board meets quarterly to review financial performance and strategy and has a formal schedule of matters reserved for its decision, which includes the setting of company goals, objectives, budgets, regulatory update and other plans.

Board of Directors



Franklin and its subsidiaries are equal opportunities employers and consider qualified applicants for employment without regard to race, sex, religion, colour, national origin, disability, medical condition, marital status, age, sexual orientation or any other basis protected by local employment legislation. Appointment to the Board follows the above equal opportunity policy and is based on positions held within Franklin, knowledge, skills and expertise.

4 Own funds

OF1 : Composition of regulatory own funds, *in GBP thousands*			
Ref	**Item**	**Amount £'000s**	**Source based on balance sheet in the audited financial statements**
1	Own funds	102,837	
2	TIER 1 Capital	102,837	
3	Common Equity TIER 1 Capital	102,837	
4	Fully paid up capital instruments	25,659	Balance sheet, page 19
5	Share premium		
6	Retained earnings	77,178	Balance sheet, page 19
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustment to CET 1 due to prudential filters		
10	Other funds		
11	(-) Total deductions from common equity TIER 1		
19	CET 1: Other capital elements, deduction and adjustments		
20	Additional TIER 1 Capital	0	
21	Fully paid up, directly issued capital instruments		
22	Share premium	0	
23	(-) Total deductions from additional TIER 1		
24	Additional TIER 1: Other capital elements, deduction and adjustments		
25	TIER 2 Capital	0	
26	Fully paid up, directly issued capital instruments		
27	Share premium		
28	(-) Total deductions from TIER 2		
29	TIER 2: Other capital elements, deduction and adjustments		

OF2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements, *in GBP thousands*				
		a	b	c
As at 31 December 2022		Balance sheet as in audited financial statements £'000s	Under regulatory scope of consolidation	Cross-reference to template OF1
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
	Investment in subsidiaries	32		
	Other investments	153,692		
	Debtors	53,522		
	Current asset investments	23,025		
	Cash at bank and in hand	40,610		
	Total Assets	270,881		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
	Amounts due to Group undertakings	5,596		
	Accruals and deferred income	42,186		
	Other creditors	5,777		
	Creditors falling due after more than one year	114,485		
	Total Liabilities	168,044		
Shareholders' Equity				
	Allotted, called up and fully paid Common stock, 80,000,000 ordinary shares of £0.3207 each	25,659		Item 4
	Other reserves	0		
	Retained earnings	77,178		Item 6
	Total Shareholders' equity	102,837		
	Total Liabilities and Shareholders' equity	270,881		

5 Overall financial adequacy rule

Per MIFIDPRU 7.4.7, as part of the ICARA process, an investment firm must at all times, hold own funds which are adequate, both as to their amount and quality, to ensure:

1. the firm is able to remain financially viable throughout the economic cycle, with the ability to address any material harm that result from its ongoing operation; and
2. the firm's business can be wound-down in an orderly manner.

This is known as the own funds threshold requirement.

5.1 Own funds threshold requirement

The amount of own funds that an investment firm needs to hold at any given time to comply with overall financial adequacy rule is the higher of:

1) Assessment of additional own funds required for ongoing operations, including an assessment of risks which are not wholly or partly covered by K-factors;
2) Assessment of own funds required for orderly wind-down, being the higher of:
   a) the wind-down or
   b) the fixed overhead requirement; and
3) Permanent minimum requirement.

Alcentra's own funds threshold requirement based on the ICARA approved by the Board in September 2022 is:

Ref	£'000s	Input	Capital Assessment
	Own Funds Requirement		
A	PMR	75	
B	FOR	12,766	
C	K-AUM	2,488	
D	K-COH	558	
E	KFR ***(C+D)***	3,046	
F	Own Funds Requirement ***Higher of (A,B or E)***		12,766
Own Funds for Ongoing Activities			
G	Harms from Ongoing Activity Assessment	39,903	
H	Additional Own Funds from Ongoing Activity ***Higher of (G-E or 0)***	36,857	
K	Harms 'other'		
L	Additional Own Funds for Ongoing Activities ***(H+K)***		36,857
M	Own Funds to Address Risks from Ongoing Activities ***(E+L)***		39,903
Own Funds to Wind Down			

	£'000s	Input	Capital Assessment
N	Cost Of OWD (Gross)	97,871	
O	Cost of OWD (Net)	18,272	
P	Additional Own Funds to Wind Down ***Higher of (O-B or 0)***	5,506	
Q	Own Funds Necessary for Orderly Wind Down ***(P+B)***		18,272
Own Funds Threshold Requirement			
R	Own Funds Threshold Requirement ***Higher of (M, Q or A)***		39,903
S	Early Warning Indicator **(110% of R)**		43,893
T	Wind Down Trigger **(B)**		12,766

5.2 Own funds requirement

MIFIDPRU 8.5 requires investment firms to disclose an own funds requirement as set out under MIFIDPRU 4.3.1. The own funds requirement of a non-SNI MIFIDPRU investment firm is the higher of:

1) its permanent minimum requirement ("PMR") under (MIFIDPRU 4.4.4);

2) its fixed overheads requirement ("FOR") under (MIFIDPRU 4.5.3):

3) its K-factor requirement under (MIFIDPRU 4.6).

Own funds requirements - *in GBP thousands, as at 31 December 2022*	**£'000**
Permanent minimum requirement	75
Fixed overhead requirement - based on FY22 audited financial statements	14,178
K-Factors	3,001
(a) Sum of K-AUM, K-CMH and K-ASA	2,398
K-AUM	2,398
K-CMH	0
K-ASA	0
(b) Sum of K-COH, K-DTF	603
K-COH	540
K-DTF	63
(c) Sum of K-CMG, K-TCD and K-CON	0
K-CMG	0
K-TCD	0
K-CON	0
Own funds requirement, higher of PMR, FOR and K-Factors	14,178

5.3 Additional own funds required for ongoing operations

Firms are required to assess the additional risks which are not covered wholly or partly by the K-Factors. When assessing potential risks from its ongoing operations, Alcentra has considered the following:

1. An assessment of Alcentra's business and operating model to identify all material harms that could result from the firm's ongoing business.
2. An assessment of the Company's full risk taxonomy
3. Considered the current economic cycle and ensuring no new risks have emerged.
4. Considered future operational changes which could alter the risk taxonomy.

Alcentra has considered the below risks for its ongoing operations.

5.3.1 Ongoing operations: Credit Risk

Credit Risk is the risk of default from counterparties or clients for deposits, loans, hedging, commitments, securities, and other assets where the realisation of the value of the asset is dependent on their ability to perform. As of 31st December 2022, the credit risk profile for Alcentra is limited to the risk of default from inter-company counterparties, management fees derived from the funds (clients) which Alcentra manages and the seed capital investments. The Company does not have a trading book.

On review of the ICARA in September, The Board determined that Alcentra will hold an additional £10.3m for Credit risk as part of its Own Funds Threshold Requirement relating to the credit risk within its seed capital portfolio.

5.3.2 Ongoing operations: Market Risk

Market risk is the risk to a firm's financial condition arising because of adverse movements in the markets, such as foreign currency exchange rates, interest rates, or mark to market adjusts in the investment portfolio.

Alcentra could be impacted owing to foreign exchange risk and adverse movements in the markets through risk to the value of its seed capital holdings. In addition, management fees and performance fees could be reduced from falling mark to market valuations and withdrawals from funds. The sources of potential harms to the Company from market risk due to foreign exchange exposure results from the retranslation of non-functional currency balances held on the balance sheet.

The foreign exchange exposure is derived from the predominance of:

- EUR and USD based receivables within Alcentra (functional currency GBP).
- Risk retention holdings in the CLOs within Alcentra which are EUR denominated offset by EUR liabilities arising from the repurchase agreement on transfer of CLO seed capital; and
- Cash and inter-company balances which revalue each month across the group.

The Board discussed these falls and the crossover between credit risk and market risk in the ICARA approved by the Board on 30 September 2022 and decided assign £8.5m to Market Risk within “Own funds for ongoing activities” capital.

5.3.3 Ongoing operations: Operational Risk

Operational Risk is the risk of loss resulting from people, systems, inadequate or failed internal processes or from external events (excluding strategic and reputational risk). Operational risk may arise in a variety of ways, including:

- operational errors during trade execution.
- breaches of its fiduciary obligations.
- failures in internal product governance processes.
- internal or external fraud; and
- legal or regulatory actions because of non-compliance with regulatory requirements prudent ethical standards or contractual obligations.

Own funds required to address risks from ongoing operations where own funds are held:

in GBP thousands, as at 31 December 2022		**£'000**
Credit risk		10,300
Market risk		8,500
Operational risk		21,103
Total own funds to address risks from ongoing activities		39,903

5.4 Wind-down requirement

Under MIFIDPRU 7.5.7 Alcentra, as part of the ICARA process, must identify the steps and resources that would be required to ensure the orderly wind-down and termination of business within a realistic timescale. The Company is required to evaluate the potential harms arising from the winding down of its business and identify how to mitigate them.

The FCA also requires investment firms to have a detailed plan, outlining the process while considering all the financial and non-financial resources, constraints and potential material harm. An effective wind-down plan aims to enable a firm to cease its regulated activities and achieve cancellation of its permission with minimal adverse impact on its clients, counterparties or the wider markets. This includes scenarios where the firm undertakes a strategic exit as well as unexpected crisis or insolvency which makes the firm unviable.

Alcentra’s wind-down requirement is £18.2m. The Company has sufficient own funds and liquid assets to meet this requirement.

6 Remuneration policy and practices in place for 2022

Decision making process for remuneration policy

Alcentra has formally adopted a remuneration policy, (the "Remuneration Policy") aligned to the FCA's Remuneration Code. The Remuneration Committee approves and, no less than annually, reviews the Company's Remuneration Policy to ensure compliance with the MIFIDPRU Code;

- consideration of the Company's remuneration practices and policies;
- that any proposed or existing remuneration structures are consistent with the Company's risk appetite; and
- that any proposed or existing remuneration packages do not reward poor conduct or performance, or conflict with the principles and spirit of the Remuneration Policy

In the performance of its duty as outlined above, the Remuneration Committee will seek the input of the heads of the risk, compliance, finance and human resources functions, as well as relevant business units, particularly where there is concern about behaviour of staff or the levels of risk taken by staff.

6.1 Conflicts of Interest and Control Functions

The Company ensures that its Remuneration Policy:

- contains measures to avoid conflicts of interest;
- encourages responsible business conduct; and
- promotes risk awareness and prudent risk tasking.

The Company does not pay variable remuneration to members of the Board who do not perform any executive functions in the Company.

The Company ensures that staff engaged in control functions:

- are independent from the business lines they oversee;
- have appropriate authority; and
- are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

The remuneration of the senior officers in the Company's risk management and compliance functions is directly overseen by the Remuneration Committee.

6.2 Material Risk Takers

The Company annually assesses which of its staff are Material Risk Takers ("MRTs"), meaning staff members:

- whose professional activities have a material impact on the risk profile of the Company or the assets managed; and
- who meet any of the MIFIDPRU Remuneration Code identification criteria included the FCA Handbook SYSC 19G.5.3

A list of the Company's MRTs is maintained by Human Resources.

6.3 Fixed and Variable Remuneration

The Company ensures that:

- the fixed and variable components of total remuneration are appropriately balanced; and
- the fixed component represents a sufficiently high proportion of the total remuneration to enable the operation of a fully flexible policy on variable remuneration, including the possibility of paying no variable remuneration component.

6.4 Aggregate remuneration cost for Material Risk Takers

For financial year 2022 there were 8 employees categorised as MRTs.

Aggregate remuneration expenditure in respect of the financial year ending December 31, 2022 in respect of MRTs was £6.25m of which the fixed element comprised £1.96m (31%) and the variable element £4.29m (69%).