

Conflicts of Interest Policy

June 2018



Alcentra Limited

Version control

Effective Date:	June 2018
Version number:	2018.1
Modified by:	James Algar
Authorised date:	June 2018
Next review date:	June 2019

Conflicts of Interest Policy (Incorporating Inducement Arrangements)

Regulatory environment and expectations

Confidence in the integrity of asset managers when acting on behalf of clients is central to the relationship of trust between the industry and its clients. This means that when making investment decisions or offering services or products to customers, asset managers must always act in customers' best interests and put customers' interests ahead of their own. Similarly, asset managers must treat all their customers fairly.

Acting as an agent for customers may create conflicts between the interests of a firm and its customers or between the interests of different customers. Policies to properly manage conflicts of interest mean customers avoid unnecessary costs and have fair access to all suitable investment opportunities. Properly managing conflicts improves the returns earned by customers and enhances general confidence in the UK asset management industry.

Principle 8 of the FCA Principles for Businesses requires that a firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another customer. SYSC 4 and SYSC 10 require the boards of directors at asset management firms to establish effective frameworks to identify control and review conflicts of interest. The Conduct of Business Sourcebook (COBS) contains detailed rules governing the purchase of goods and services using customers' money and the allocation of investment opportunities between customers. The FCA expects firms to demonstrate that regulatory principles and rules are embedded in their businesses and that they are taken into account when considering new products, processes or business models. A summary of the key arrangements the Firm has in place to meet these expectations is set out in Appendix 1. One of the more specific conflicts the firm faces is when funds invest in both the senior debt and mezzanine debt of the same issuer and that issuer's performance necessitates workout negotiations'. Appendix 2 describes how the firm manages the inherent conflict where fund have differing interests. In order to manage and mitigate inherent conflicts, the firm also adhere to certain BNYM policies, some of which are referred to in this policy.

The culture of the Firm

Alcentra Limited ('Alcentra' or 'the Firm') is authorised and regulated by the Financial Conduct Authority (FCA). In accordance with the Senior Management Systems and Controls, when the Firm carries out regulated activities it is required to establish, implement and maintain an effective Conflicts Policy. This policy reflects the culture and ethos of the Firm and ensures that procedures are in place to identify, monitor and handle all potential and actual conflicts so that these do not impact the clients of the Firm or ultimate fund investors in a detrimental manner.

The purpose of this document is to provide appropriate information relating to the policies we have in place to identify and manage conflicts of interest. Much of the contents of this will be covered by other functions of the business but for best practice and regulatory purposes this document summarises the Firm's Conflicts Policy incorporating also our arrangements regarding the management of inducements.

Alcentra Ltd is committed to identifying, monitoring and managing all actual and potential conflicts of interest that can arise between our clients and us and between clients in all areas of our business. Members of staff are encouraged to and are expected to do the same and should refer

to the appropriate line manager or Committee in the event that a potential area of conflict is identified in order that it is managed in the appropriate way.

Who is the client?

The Firm's clients are the funds it manages and all references made to client are in respect of the funds. The Firm will enter into an Investment Management Agreement, or similar document, with each client. The arrangements for conflicts management will typically be set out in this document.

What is a Conflict of Interest?

A conflict of interest is a situation where a person, be it an employee or associate of a firm, or firm owing a duty to a client may have personal or professional interests which competes with this duty. A situation may be a conflict of interest even if no improper act or disadvantage to the client arises from it.

Conflicts of interest are defined in the context of FCA rules as any conflicts which arise between:

- The Firm and a client; or
- A client and another client,
- When the firm is carrying out activities which are regulated by the FCA or ancillary services.

The types of conflicts envisaged by the FCA may include situations where the Firm:

- Stands to make a financial gain, or avoid a loss, at the expense of the client;
- Has an interest in the outcome of a service provided to the client, or transaction carried out on their behalf, which is materially different from the interest of that client;
- Has financial or other incentive to favour the interests of another client or group of clients over that client;
- Carries on the same business as the client; or
- Is likely to receive from a person other than the client an inducement, whatever the form, relating to the service provided to the client other than standard fees or commission for that service; and/or
- Undertakes directorships or governance positions of significant influence that may cause a conflict of interest between the individual and the interests of the Legal Entity and/or one or more clients.

Alcentra has a zero tolerance stance on the outcomes from all the conflicts listed above and other possible scenarios where the firm has potential conflicts of interest.

Inducements

The rules on inducements are to be considered by the Firm as additional to those rules relating to conflicts of interest, the firm's rules on inducements are set out in the 'inducements and incentives' section of the firm's Compliance Manual. We will consider all inducements and not only those

where a conflict or potential conflict arises. Indirect payments that are received by the Firm are only legitimate when the Firm ensures the incentives it receives do not result in investment services which is biased and is not in the best interests of the clients.

Under the FCA conduct of business obligations we will not be considered to be acting honestly, fairly and professionally in accordance with the best interests of a client if, in relation to an investment or service we provide, we pay or are paid any fee or commission, or provide or are provided with any non-monetary benefit, unless it is:

1. To or from a client: or
2. A Proper fee* which
 - a. Enables and is necessary for the provision of the service to the client; and
 - b. By its nature, cannot give rise to a conflict between the Firm and the client; or
3. To or from a third party provided that it:
 - a. Does not impair compliance with the Firm's duty to act in the best interest of its client;
 - b. Is designed to enhance the quality of service; and
 - c. Is clearly disclosed to the Firm's client before the service is provided.

* *A proper fee could, for example be custody costs, settlement and exchange fees, regulatory levies or legal fees.*

In considering potential inducements we will consider a number of different factors, including but not limited to:

- whether the inducement results from our regulated activities;
- whether the inducement falls within one of the exemptions listed above;
- where those inducements categorised as 'proper fees' the Firm will consider the nature of the fee in relation the client's best interest requirements and whether they are 'necessary' and 'enable' the provision of our services.

Inducements – Minor Non-Monetary Benefits

In the provision of investment services to clients, the Firm may from time to time, accept or retain certain 'minor non-monetary benefits' ('benefits') to or from third parties. Should this occur, it may give rise to potential conflicts of interest where such benefits could impair Alcentra's obligation to act in the best interest of its clients. For example, the Firm could receive benefits which might lead it to favour certain counterparties or service providers and which could prevent it from focusing on the costs charged to clients or quality of associated service it receives. This could be detrimental to client's interests.

As part of the Firm's regulatory responsibilities, it is Alcentra's policy to avoid providing, accepting or retaining any fee, commission or monetary benefit to or from third parties. To further minimise the risks of conflicts, the Firm's compliance policy is designed to ensure any benefits are proportionate and reasonable. However, where benefits are provided, accepted or retained, the Firm's policies are designed to ensure that such benefits meet regulatory obligations and that they would enhance the service provided to clients and not impair the Firm's ability to act in the best interest of its clients.

Investment Research

The Firm funds all its research which is utilised to make investment decisions and selecting investment strategies. Alcentra will only utilise research received from Bloomberg as its approved research terminus provider. This eliminates a potential conflict of favouring a particular broker's

research over the other. The Firm funding its research means that passing research spending costs to clients is eliminated.

Ownership

The Firm is owned by Bank of New York Mellon Corporation (BNYM) and is authorised and regulated by the Financial Conduct Authority (FCA). The Firm works with BNYM to manage any potential conflicts which may arise as a result of their ownership of the Firm. The Firm takes into account conflicts of interest arising as a result of the structure and business activities of other members of BNYM and identify any specific services carried out by or on behalf of BNYM, the circumstances which constitute or may give rise to a conflict of interest entailing a risk of damage to the interests of one or more clients;

Identification, recording and management of conflicts of interest and inducements

The Firm takes reasonable steps, administratively and organizationally to help prevent conflicts arising as a result of the firm's various business lines and our group's activities relating to clients and prospective clients of the business

The Firm has in place procedures for the following:

- Identification of types conflicts of interest (SYSC 10.1.4)
- Recording of conflicts of interest (SYSC 10.1.6)
- Management of conflicts of interest (SYSC 10.1.7)
- Disclosure of conflicts of interest (SYSC 10.1.8)

The Firm conducts a regular review of conflicts of interest as a part of its compliance monitoring program and maintains a Conflicts Register and Inducements register to record any conflicts that are identified. As a part of this, and in accordance with SYSC, the Firm regularly carries out a review and maintains a record of the types of activity carried out from which a conflict of interest may arise.

Escalation of Conflicts of Interest and Inducements

The Firm's first line of defence is primarily responsible for identifying and escalating to the firm's Risk & Compliance team potential cases of conflicts as they occur. The Firm has in place a strict procedure as to how identified conflicts should be escalated to the firm's Risk & Compliance team who act as a second line of defence. Where the firm analyses the nature of the identified conflict and believe it to be unavoidable, the firm's Senior Management and Committees act as an escalation point for identified conflicts as required.

Disclosure of Conflicts of Interest and Inducements

Where an unavoidable conflict does arise, the full nature of the conflict will be initially disclosed to our client prior to undertaking the activity, or when the conflict is identified whichever is sooner, to enable our clients make an informed decision. We will also disclose the proposed measures for handling it. If it appears for any reason that the conflict cannot be reasonably managed so as not to prejudice the best interests of the client, this will also be disclosed.

The Firm will take all steps to avoid incidents of conflicts and will only rely upon disclosure of a conflict to a client as a measure of last resort. In the event that incidents of conflicts cannot be avoided, The Firm will disclose to our clients, the general nature or sources of conflicts of interest and steps taken to mitigate those risks.

The Firm will communicate incidents of conflicts to clients via letter or email and clearly state that controls set in place is not sufficient to ensure with reasonable confidence, that the risks of damage to interests of the clients will be prevented. The Firm will also provide clients with a description of the conflicts of interest, along with the potential risk to the client as a result of the conflict of interest so as to enable them make an informed decision. The disclosure of an incident of conflicts communicated to clients will include details of the steps the firm takes to prevent and mitigate conflicts, and how the incident of conflicts being disclosed will be remediated by the firm. The Firm does not differentiate the treatment of professional and eligible counterparties in relation to conflicts of interest.

Inducement disclosures will be set out to clients in concise, unambiguous language ('clear, fair and not misleading') which clearly identifies the existence, nature and amount of a fee, commission or benefit in essential terms in the first instance with the offer of more comprehensive details in monetary figures at the client's request.

Roles and Responsibilities

BNYM EMEA Conflicts Policy (II-A-7.030) states that compliance is responsible for providing oversight and escalation of conflicts of interest, and reporting identified and potential conflicts to senior management, amongst other things. Alcentra's Risk and Compliance is therefore responsible for maintaining and updating the firm's conflict of interest policy in line with relevant regulatory developments, maintaining and updating the firm's conflict of interest register to report identified and potential conflicts to the firm's Senior Management, and reviewing and maintaining conflicts of interest forms completed by the first line.

Amendments to the Policy and Annual Review

If any amendments are made to the policy which may materially affect the way in which the firm would handle a conflict of interest on behalf of a client, the client shall be notified in writing of the nature of the changes. The client will also be provided, on request, with an up-to-date copy of the conflicts of interest policy statement.

Relevant Alcentra committees have a responsibility to consider conflicts that may arise as part of their remit. Responsibility for review of the Conflicts Policy rests with the Risk and Compliance Committee who will ensure the Conflicts Policy is reviewed at least annually and ensures continuous compliance with our requirements. In addition to this we encourage and expect all members of staff to act in full compliance with the conflicts arrangements at all times. There is a conflicts of interest form, which all employees are expected to complete to enable the risk committee to review new conflicts.

Record Keeping

The Firm will maintain a Conflicts Register, which in it, includes inducements scenarios the firm might face listed as a potential conflict. All cases of potential inducement are recorded individually on a form. These records will be held and updated by the Risk & Compliance Committee.

Addendum - Alcentra Group Conflicts of Interest

Alcentra Limited and Alcentra NY, LLC manage dedicated senior loan funds, mezzanine funds, high yield bond funds, separately managed accounts, as well as stressed and distressed strategy funds.

Segregation of Funds

It is possible that Alcentra may be invested in both the senior debt and the mezzanine debt in a particular buy-out through two or more different funds. In the event of a weakening in the performance of the borrower necessitating workout negotiations and for lenders to vote on a proposed course of action, there may be a conflict between the interests of senior lenders and mezzanine lenders as well as between those that have bought in primary at par and those that have bought in the secondary market at a discount.

In these situations, Alcentra will have the right to vote separately in respect of each funds holding. Portfolio managers will vote independently to reflect the best interests of the individual funds they represent and, if necessary, the portfolio manager for the fund which holds the senior loan position is able to vote differently to the portfolio manager for the fund which holds the mezzanine loan position, for example.

Chinese Walls

Alcentra has established and maintains a Chinese wall, which is an arrangement that requires information held by a person in the course of carrying on one part of the business to be withheld from, or not to be used for, persons with or for whom it acts in the course of carrying on another part of its business.

Alcentra will ensure that relevant persons:

- withhold or not use the information held; and
- for that purpose, permit persons employed in the first part of its business to withhold the information held from those employed in that other part of the business;

But only to the extent that the Firm or parts of it involves the carrying on of regulated activities, ancillary activities or, in the case of MiFID business, the provision of ancillary services.

Information may also be withheld or not used by the Firm when this is required by an established arrangement maintained between different parts of the business in the same group. This provision does not affect any requirement to transmit or use information that may arise apart from the rules in COBS. "Maintains" includes taking reasonable steps to ensure that the arrangements remain effective and are adequately monitored, and must be interpreted accordingly

Affiliations

In certain cases, Alcentra may face further limitations because of aggregation issues due to our relationship with affiliated investment advisory firms. Alcentra may enter into transactions with unaffiliated counterparties or third party service providers who then use affiliates of Alcentra to effect or complete such transactions.

Services provided by such affiliates may include, for example, execution and clearance of trades, issuance or cancellation of depositary receipts, foreign exchange or other services not contemplated by Alcentra. Such affiliates may receive compensation for providing these services. The decision to use an affiliate of Alcentra in these circumstances, however, is made by the unaffiliated counterparty or third party service provider. Further, Alcentra often is unaware that the counterparty has chosen to use an affiliate of Alcentra to provide such services.

Monitoring of Relevant Staff

Alcentra will ensure there is ongoing monitoring of Portfolio Managers and any other relevant staff by the Compliance Monitoring team. Relevant staffs are defined as staff whose principal functions involve carrying out activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the Firm.

The Firm's Compliance Monitoring team will review and monitor relevant staff through a combination of surveillance systems and targeted compliance testing.