



2022 Report



“WE BELIEVE ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS ARE INTEGRAL TO OUR GOAL OF GENERATING ATTRACTIVE RISK-ADJUSTED RETURNS.”

—SCOTT KAPNICK
Chief Executive Officer



2022 Report

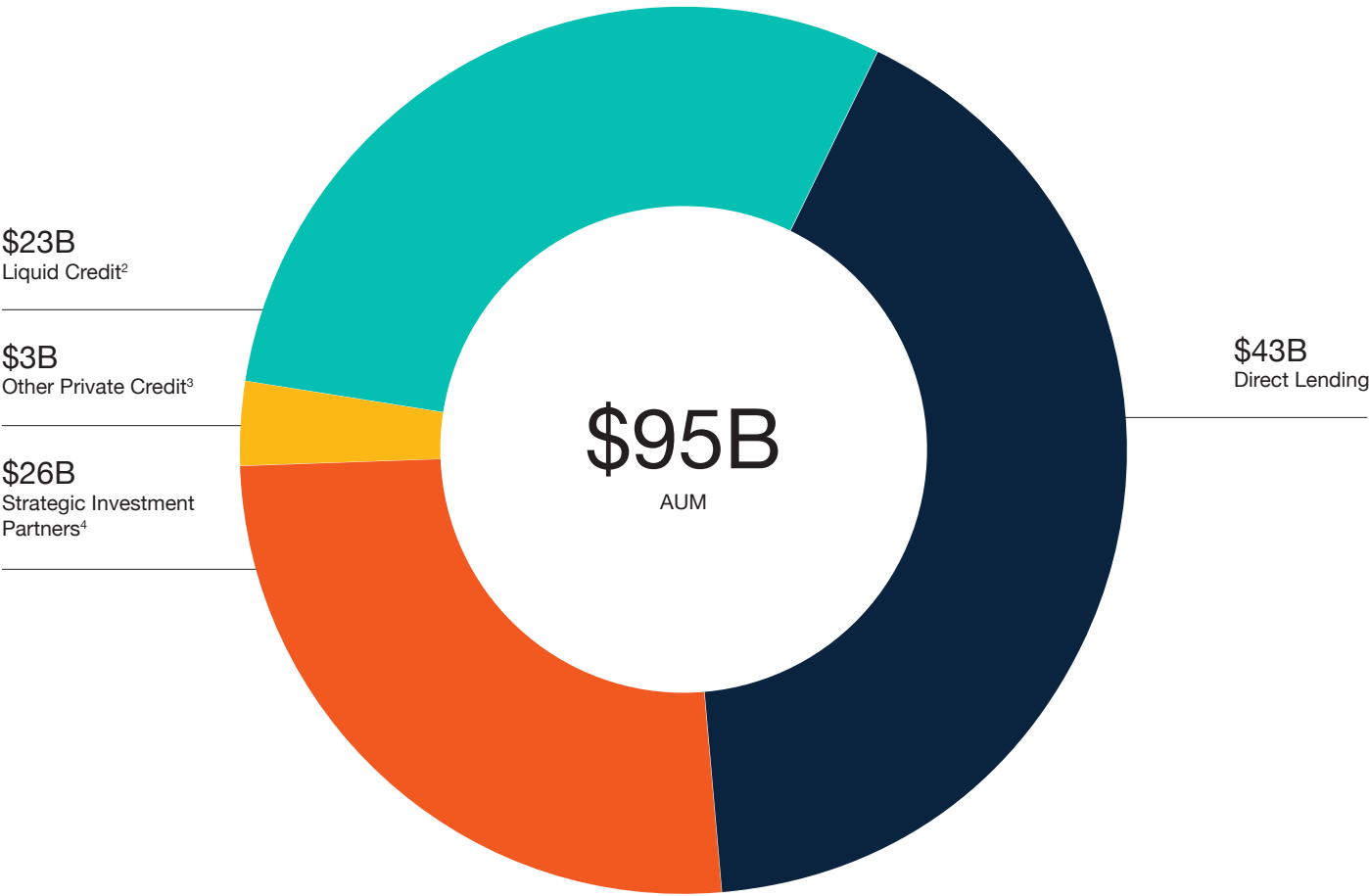


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● Founded in 2007, HPS Investment Partners is a leading global alternative investment manager with \$95 billion in assets under management.¹ We invest primarily in non-investment-grade credit and manage strategies across the capital structure—including privately negotiated senior secured debt and junior credit investments, syndicated leveraged loans, high-yield bonds, asset-based leasing, real estate, renewables and power, and private equity.

Assets under management

Our current AUM of \$94.6 billion is divided into four categories:



¹As of October 1, 2022. AUM of private credit funds, related managed accounts and certain other closed ended liquid credit funds represent capital commitments during such funds’ investment periods, and, post such funds’ investment period, the cost of investment or NAV (including fund level leverage but in all cases capped at capital commitments). AUM of liquid credit open-ended funds and related managed accounts other than CLOs represents the latest available NAV. AUM of CLOs and warehouses represents the par value of collateral assets and cash in the portfolio. AUM of HPS Corporate Lending Fund (HLEND) represents estimated net asset value of investments plus leverage (inclusive of drawn and undrawn amounts). | ²Includes multi-asset credit, liquid loan, CLO, structured credit and Asia credit strategies. | ³Includes Special Situations, Asset Value and Real Estate strategies. | ⁴Formerly known as Mezzanine Partners.

We are one of the world’s largest alternative credit investment managers, with the primary objectives of delivering creative capital solutions to our portfolio companies and attractive risk-adjusted returns to our clients. Our scale, breadth and differentiated origination capabilities are key advantages in sourcing access to a wide range of opportunities through varying market cycles.

Several institutional capabilities are interwoven throughout our investment strategies:

- **Selectivity:** We aim to be rigorous in the deals we commit to. Investments are selected based on exacting financial, operational, industry and structural analyses. In our private credit strategies, we typically invest in a small fraction of the many investment opportunities we evaluate each year.
- **Discipline:** With a focus on capital preservation, we are willing to walk away from transactions that do not meet both our return and risk criteria. To us, the investments we choose not to make are just as important as those we approve.
- **Diversification + Flexibility:** Our portfolios are generally diversified by geography and industry. We also strive to maintain flexibility, which allows us to capitalize on opportunities during market dislocations.
- **Experience:** We have invested across a variety of market environments since our inception, navigating upheavals from the Global Financial Crisis in 2008 to COVID-19 in 2020.
- **Alignment:** We believe aligning the interests of our LPs with HPS partners and employees is essential to the long-term success of our firm. Our Governing Partners—all of whom have been with HPS since its inception—invest directly alongside investors, as do the senior investment teams in many of our strategies.

Where We Invest

Our multiple strategies and mandates span both private and liquid credit.

| | Private Credit | Liquid Credit |
|----------------------|---|---|
| AUM | \$72 billion | \$23 billion |
| Targeted Investments | Privately negotiated debt investments, special situations, specialty loans and leases | Actively managed portfolios of broadly syndicated loans, investment-grade and high-yield bonds and securitized credit |
| Strategies | <ul style="list-style-type: none">• Senior secured• Junior capital• Asset-based finance• Renewables and power• Real estate• Special situations | <ul style="list-style-type: none">• Broadly syndicated loans• Multi-asset credit |
| Customized Mandates | <ul style="list-style-type: none">• ~40 mandates• ~\$20 billion | <ul style="list-style-type: none">• ~20 mandates• ~\$8 billion |

HPS BY THE NUMBERS

| | | |
|-------------------------------------|------------------------|---|
| \$95B in AUM ⁵ | 15 offices | 180+ investment professionals* |
| 520+ employees* | 4 continents | 16,000 tons of carbon offsets purchased, fully offsetting the Firm’s 2021 carbon footprint ⁶ |

⁵Please refer to footnote 1 on page 2. Figures are rounded. | ⁶Please refer to page 14 for additional details.

A Message From Our CEO



- Given the significant changes that have occurred in the world since my last ESG letter in March 2021, we thought it was appropriate to provide an update and introduce our inaugural ESG Sustainability Report. As a firm, HPS aspires to stand at the forefront of ESG development in the credit investing space. We recognize that this is a relatively young and evolving area of analysis for investment firms and LPs alike, and we continue to look for ways to grow and improve our ESG approach.

Serving our clients by delivering attractive risk-adjusted returns from private and liquid credit investments is our most important mission. We believe that mitigating risks and capturing opportunities from ESG factors is key to this mission. It is our objective to understand and manage ESG risks in the same way we understand and manage credit risks, while at the same time looking for opportunities to help create long-term sustainable businesses, manage volatility and downside risks in our portfolios, and optimize our investment outcomes.

Today, the world grapples with an unprecedented set of challenges: the third year of a pandemic, a land war in Europe, a growing humanitarian crisis from shortages of food, water and fuel, and the persistent threat of climate change. The HPS culture is defined by our actions, and it is critical in times like these that we lead by example, both in our industry and the communities where we work and live. This means collaborating with our peers, providing capital solutions for energy security and accessibility, managing our own environmental impact, and engaging with our communities in an effort to promote a more diverse, inclusive and resilient society.

HPS is a signatory to the United Nations-supported Principles for Responsible Investment, a core supporter of the Standards Board for Alternative Investments, and a public supporter of the Task Force on Climate-Related Financial Disclosures.

Participation in initiatives like these helps ensure that HPS remains at the forefront of ESG integration, reporting and engagement. It also provides an opportunity for us to engage with our peers and contribute to the development of ESG considerations in the credit markets, while capturing the opportunities and controlling the risks related to those considerations.

A decade ago, scientists and many in the business community were concerned about the prospect of rising temperatures, which were anticipated to increase by 4.5 degrees Celsius by the end of the century under the “business as usual” scenario. Subsequent net-zero pledges, presuming they are fulfilled, have brought those projected temperature increases down to approximately 2.0 to 2.1 degrees Celsius. However, those commitments rely on future technological development and significant private capital funding. Even with all these initiatives around the world to reduce our carbon footprint, recent estimates of warming on current policy trajectories are much higher, between 2.6 and 2.9 degrees Celsius by the end of the century. The impact of rising temperatures on society and ecosystems is vast and likely to be disproportionately borne by the world’s poorest and those least able to adapt. Indeed, the need for energy security and accessibility seems palpable everywhere we invest and should create attractive opportunities for us and our clients.

HPS is proud to announce that 2021 marked our first year estimating and fully offsetting our carbon footprint. In 2022, we built on this progress by establishing a framework for reporting on estimated carbon data for our private credit portfolio companies and sharing the results with investors who requested them. We have also bolstered our Renewables and Power team with an increased focus on sustainable assets, which we believe will complement our broader energy investing capabilities.

HPS has a strong track record of delivering creative and customized solutions to our clients, and we believe this bespoke approach can be applied to ESG considerations. Our goal is to provide clients with the solutions they seek while understanding and managing the ESG impact and opportunities associated with our investment strategies. As part of our continued commitment in this regard, we launched our first Article 8 fund this year, with the expectation that we will launch more in the future.

Our people are our most important asset; we cannot deliver on our mission or achieve our objectives without our team. We strongly believe that cultivating a diverse and inclusive environment where our employees are treated fairly is essential to achieving our goals. Moreover, we are unwavering in our belief that diversity makes our business and communities stronger.

The professional promise and success of too many young people from underrep-



resented groups continues to be impeded by an access and mobility gap. HPS has established a series of initiatives aimed at narrowing that gap. Chief among these is our multi-year partnership with Howard University, one of America’s oldest and most prominent historically Black colleges and universities. In addition to endowing a scholarship program, HPS has worked with Howard University to launch the HPS Center for Financial Excellence at the Howard University School of Business, with the goal of developing and preparing highly capable students to pursue careers in finance.

HPS is also honored to partner with organizations such as Seizing Every Opportunity, Harlem Lacrosse, The Opportunity Network and Out for Undergrad—groups that share our commitment to narrowing the opportunity gap. On the investment side, we have joined a group of esteemed investors in founding and providing ongoing support for the Equity Alliance, an investment fund with a mandate to invest in diverse emerging venture capital managers, with a focus on managers of color and women. Through these commitments, it is our hope that we can advance equity and promote diversity and access to new

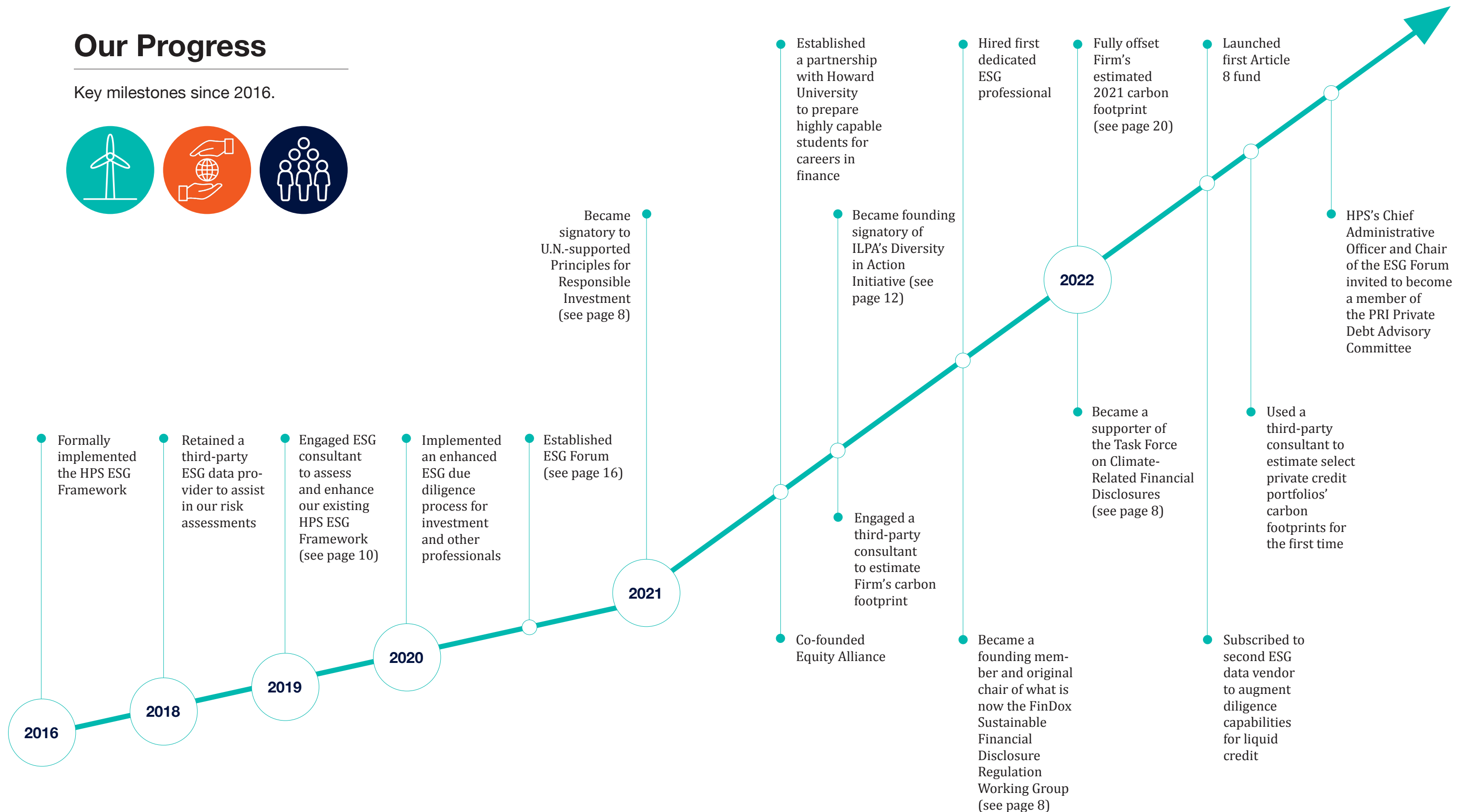
talent across the finance industry while democratizing access to capital.

Our firm is going through a transformative period, and this report is intended to share our vision for the future and reaffirm our steadfast commitment to making our clients, partners, employees and communities proud. We recognize that there is much more work to do and welcome your thoughts and the opportunity to work together as we move forward.

Scott Kapnick
Chief Executive Officer

Our Progress

Key milestones since 2016.



ESG at HPS: Overview

- We aspire to be a partner of choice for investors seeking well-performing ESG-integrated portfolios. As such, we strive to incorporate ESG considerations in our investment process with a view to controlling the risks and capturing the opportunities, developing a robust ESG reporting framework for our clients, and our endeavor to strengthen engagement with our portfolio companies has become an important part of our business strategy. There have been several key milestones in our ESG journey.

● **European presence and early recognition:** From its inception in 2007, HPS has maintained strong ties with major European investors—many of whom are early backers of our platform and strong advocates of ESG principles. These investors, including a number of European insurers, understood the impact unchecked carbon emissions can have on business models, and helped us recognize the importance and urgency of incorporating ESG considerations into our investment process as a way to control investment risk and volatility.

● **Framework development:** From the early days, when ESG considerations were not as prevalent as they are today, HPS experienced steadily increasing requests from institutional investors on our approach to ESG integration and anticipated that the investor demand and regulatory trends were only going to increase. At the same time, both senior leadership and our employees recognized that incorporating ESG considerations into our investment processes has the potential to enhance risk-adjusted investment outcomes for our clients. We developed our first ESG framework in 2016, shortly after becoming an independent firm, and have since accelerated our efforts, both by adding key internal capabilities and building external relationships.

● **Beyond reputational risk:** The roots of HPS's ESG initiatives can be found in our long-standing focus on mitigating risk—both to our clients and to ourselves. In the past, that focus has helped prompt HPS to walk away from certain investments we judged to be vulnerable to reputational risk. Today, our approach is more holistic, reflecting the belief that ESG factors can not only negatively impact a business and its long-term value, but also positively impact business performance and our overall risk-adjusted returns.

● **Firmwide integration:** Our goal is to build credit investment portfolios generating attractive risk-adjusted returns, with a focus on controlling volatility and downside risk. Oftentimes, it is important in order to achieve these objectives to treat ESG risks, mitigants and opportunities for improvements as part of holistic credit analysis and risk management processes, which occur through the sourcing, due diligence and ongoing monitoring of investments. As such, the focus on ESG considerations is shared by many of our investment professionals at varying seniorities and extends beyond simply flagging potential reputational concerns. Where practical, we also strive to engage with our portfolio companies to evolve ESG standards into their own business operations to promote enterprises that are less vulnerable to external risks and better poised to capitalize on any potential opportunities to stabilize and enhance business performance. Many of our clients have conveyed to us their similar focus. In early 2022, HPS introduced its first Article 8 fund under the European Union's Sustainable Finance Disclosure Regulation (SFDR)—designed to begin promoting environmental characteristics for investors seeking those features. Going forward, we will endeavor to consider Article 8 and Article 9 funds in new fund launches, to continue to meet investor needs.

“UNDERSTANDING ESG IMPLICATIONS CAN HELP ONE BE A BETTER STEWARD OF CAPITAL.”

— TONY SHIZARI

Managing Director, Renewables and Power

● **Leadership role:** HPS has joined major investment industry ESG initiatives, including:



PRI: In 2021 we became a signatory to the United Nations–supported Principles for Responsible Investment, an international global network of asset managers, owners and service providers working together to put responsible investment into practice. In June 2022, HPS's Chief Administrative Officer and Chair of the Firm's ESG Forum was invited to join the PRI Private Debt Advisory Committee.

SBai

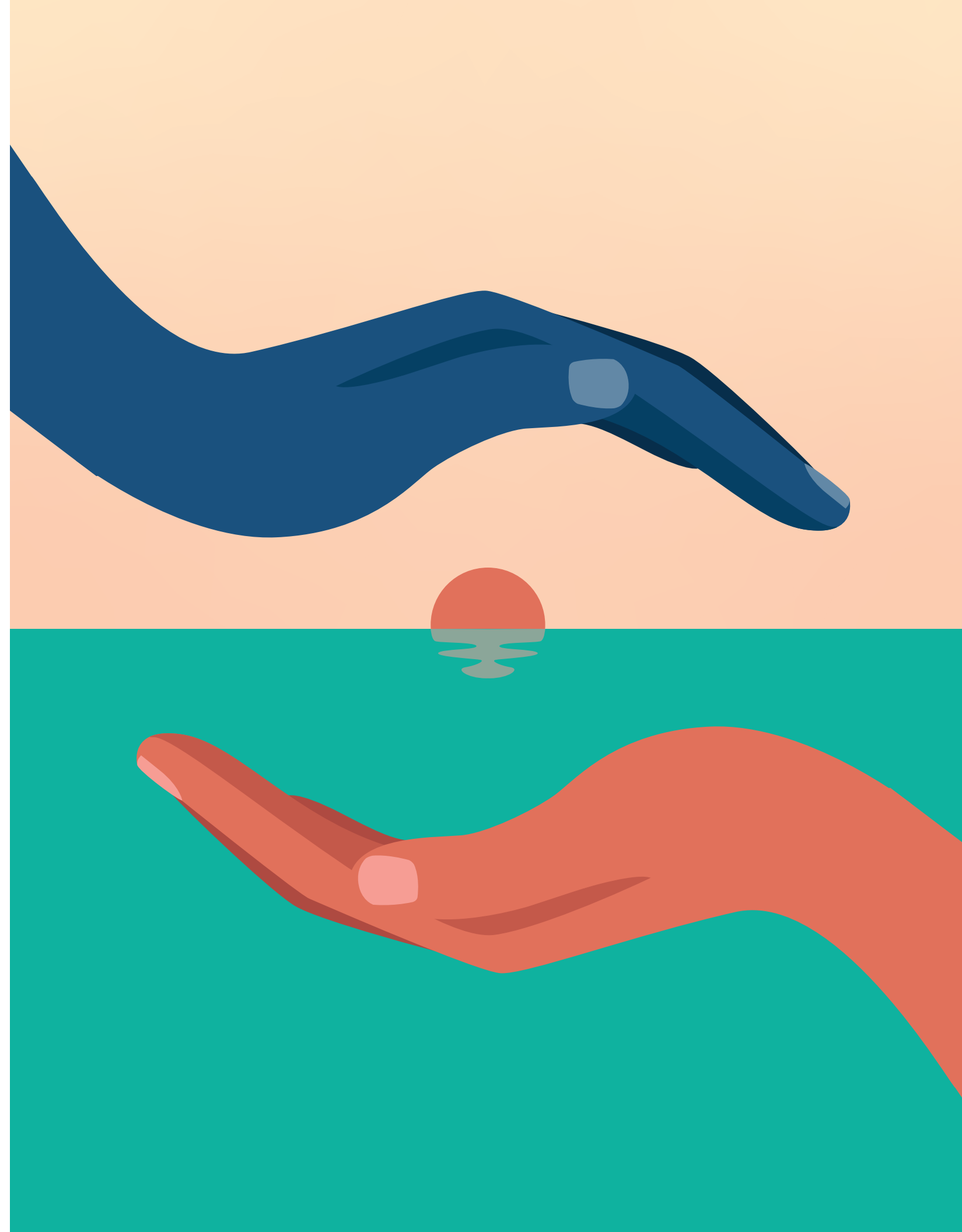
SBAL: HPS is a core supporter of the Standards Board for Alternative Investments and a member of its Alternative Credit Working Group, focused on developing responsible investment guidelines with specific considerations for credit investments.

SFDR

SFDR Working Group: HPS was a founding member and original chair of what is now the FinDox Sustainable Financial Disclosure Regulation Working Group, which aims to create a unified, consistent approach to ESG compliance and reporting among collateralized loan obligation (CLO) managers.



TCFD: HPS is a supporter of the Task Force on Climate-Related Financial Disclosures formed by the Financial Stability Board. We share TCFD's view that standardized information should allow companies to incorporate climate considerations into their risk management and strategic planning processes.



ESG at HPS: A Firmwide Mission

- Our ESG Framework reflects our desire to fulfill our responsibilities as stewards of our clients’ capital. Strengthening and expanding our ESG initiatives has given HPS employees the opportunity to comprehensively analyze potential investments and encourage change where possible.

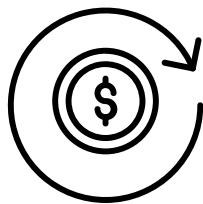
HPS Investment Partners’ objective is to provide creative capital solutions for our portfolio companies and generate attractive risk-adjusted returns for our clients with a focus on capital preservation. We believe a responsible approach to investing, which emphasizes environmental, social and governance considerations, enhances our ability to control risk and volatility in our credit portfolios, safeguard our investors and our Firm from potential reputational harm, and, in certain cases, identify the opportunity to support businesses in their effort to be better insulated from certain risks and better poised to hire and retain the best talent.

“THE NEED FOR GREATER ENVIRONMENTAL SUSTAINABILITY; THE URGENCY AROUND GREATER DIVERSITY AND INCLUSION: THE INDUSTRY HAS COME TO RECOGNIZE THE IMPORTANCE OF THESE ISSUES IN OUR OWN LIVES—AND, AT HPS, WE HAVE BEEN ENCOURAGED TO BE A PART OF AND ACCELERATE MORE SUSTAINABLE EFFORTS IN OUR PROFESSIONAL LIVES. TO SEE THIS KIND OF COMMITMENT FROM THEIR EMPLOYER, IT HAS THE CAPACITY TO MAKE YOU FEEL SO MUCH MORE FULFILLED ABOUT YOUR WORK.”

—RACHEL ZAGAJEWSKI
Executive Director,
European Private Credit

ESG Integration Framework

Our key objectives include:



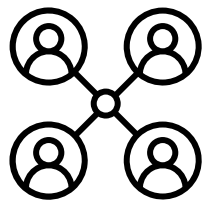
Optimizing returns

Identify and manage risks to optimize investment outcomes, consistent with our fiduciary duty



Mitigating risk

Engage with company management where we can, in an effort to address and mitigate identified material ESG risks and help them assess the possible long-term financial and reputational impacts that can result from unchecked ESG risks



Empowering employees

Equip investment professionals with the knowledge and resources to consider and analyze ESG factors throughout the investment process



VOICES

Mike Patterson

Governing Partner
and Head of Direct Lending

“At the core of the HPS culture is our emphasis on analytical rigor and preservation of capital. Our aim is to understand and manage ESG risk in the same way we understand and manage credit risk in our investment process, while, at the same time, looking for opportunities to help borrowers become stronger and more resilient businesses.”



Corporate Sustainability: Commitment to Our Community

- We know firsthand that a diversity of experiences and perspectives can make us a better firm and better investors. And we steadfastly believe that embracing diversity makes our communities stronger.

We operate around the world—and we feel it is our responsibility to become part of the fabric of the communities where we live and work, giving back in terms of both dollars and time. This not only helps others; it also gives our employees a greater sense of purpose and makes us a more attractive place to work and build a career.

As part of this focus, we have facilitated employees' volunteer efforts and matched employee donations with respect to several pressing causes, from pandemic-relief efforts to social justice initiatives.

In addition, we have entered into a series of partnerships focused on increasing diversity across our firm and the broader finance industry.

“WHAT MAKES OUR PARTNERSHIP WITH HOWARD UNIVERSITY DIFFERENT IS THAT HPS ISN'T JUST WRITING A CHECK. VERY SENIOR PEOPLE AT THE FIRM ARE RAISING A HAND AND SAYING: 'I'LL BE A MENTOR' OR 'I'LL GO DOWN AND SPEAK TO A CLASS THERE.' THAT'S VALUABLE—NOT JUST FOR THE STUDENTS BUT FOR THE EMPLOYEES HERE AT HPS. I REALLY HOPE THIS CAN BE A MODEL FOR OTHER FIRMS AND UNIVERSITIES.”

—PAYNE BROWN

Managing Director,
Origination and Capital Markets



Howard University: HPS and The Kapnick Foundation have formed a \$10 million multi-year partnership with Howard University to establish the HPS Center for Financial Excellence to support students who might not otherwise have educational opportunities to prepare for a career in finance. As part of the partnership, HPS and the Foundation have also endowed undergraduate scholarships as well as scholarships for the joint JD/MBA program (see “Fostering diversity,” page 13).



ILPA: HPS is a founding signatory to the Institutional Limited Partners Association's Diversity in Action initiative, which brings together LPs and GPs that share a commitment to advancing diversity, equity and inclusion within their organizations and across the industry.



Out for Undergrad: O4U hosts four industry-specific conferences a year, which are designed to bring together undergraduates for a weekend of education, community building and career development. HPS is a sponsor of the annual O4U Business Conference.



Equity Alliance: HPS joined a group of esteemed investors and investment firms in founding the Equity Alliance, which strives to democratize access to capital and opportunities by investing in diverse, emerging venture capital fund managers, with a special focus on managers of color and women.



Seizing Every Opportunity: Established in 1963, SEO has a well-established record in developing and implementing programs to close preparedness gaps faced by highly talented and motivated students of color on the path to exceptional educational and career opportunities. HPS is a sponsor of SEO's annual Alternative Investments Conference and SEO Career, which recruits and trains high-achieving Black, Latinx and Native American college students for challenging summer internships that can lead to full-time jobs.



Opportunity Network: OppNet's mission is to ignite the drive, curiosity and agency of underrepresented students on their paths to and through college and into thriving careers. HPS has partnered with OppNet in hiring interns each summer, with the goal of providing exposure to careers in alternative asset management to first-generation college students of color.



Harlem Lacrosse: Harlem Lacrosse provides access to academic intervention, leadership training and lacrosse to at risk youth across the United States. Harlem Lacrosse seeks to empower those most at risk for academic decline and dropout to reach their full potential.

CASE STUDY

Fostering Diversity

HPS + Howard University = DEI

- **Initiative:** In March 2021, HPS and The Kapnick Foundation announced a \$10 million gift to create the HPS Center for Financial Excellence at the Howard University School of Business and fund a series of scholarships.
- **Opportunity:** Driving the donation was the belief that while HPS is proud of its internal diversity (see “DEI at HPS,” page 14), the donation could help create a further funnel of diverse talent not just to HPS but also to the broader financial industry.
- **Results:** The Center provides a platform for experiential learning designed to deliver high-impact programs as a bridge between the classroom and practical experiences. By combining a robust curriculum with intensive summer internships and active mentorship, it is the goal of the Center to prepare highly capable students for careers in finance.

- The HPS approach to good governance encompasses both our internal policies and continuous training of our employees.

Our employees are our most valuable asset. Since its inception, HPS has strived to foster a workplace that embraces the diverse backgrounds, experiences and perspectives of our team. We know firsthand that a diversity of outlooks makes us a better firm and better investors, and we are steadfast in our belief that diversity makes our communities stronger as well.

DEI is also important when it comes to identifying, hiring and retaining talent. As the Firm has grown in scale, offerings and reach, the importance of a diverse talent pool has grown along with it. HPS is investing more than ever in developing and training a diverse pool of talent—and, in 2022, we hired a dedicated professional charged with, among other things, systematizing DEI into our future hiring process.

DEI AT HPS¹

Female Representation

40%
of the Firm's
Governing Partners are women.

18%
of the Firm's partners
are women.²

30%
of the Firm's employees
are women.

Minority Representation

27%
of the Firm's partners
are minorities.²

31%
of the Firm's employees
are minorities.

¹Statistics as of June 30, 2022. | ²Statistic reflects the Firm's 33 partners.

SPOTLIGHT

Cybersecurity at HPS



- Our Information Security Policy (ISP) addresses, among other things, client data, proprietary firm data and employee data. Our Chief Technology Officer provides periodic updates as it relates to cybersecurity and the overall status of the ISP to the Chief Executive Officer, Chief Financial Officer, General Counsel and Chief Compliance Officer.
- HPS invests in and deploys systems aimed at preventing cybersecurity threats, including firewall and endpoint protections and multi-factor authentication. Our policies regulate the proper retention and destruction of data; the encryption of all firm-owned and issued devices; and the implementation of anti-malware and security patches when new threats are detected.



● We believe that our ability to identify and understand risk lies at the heart of what we do—and we strive to bring this same rigor to our analysis and assessment of ESG risks for both private and liquid credit investments. We believe our ESG efforts benefit our investors by allowing us to mitigate downside risks and, at times, capture opportunities to help create more resilient businesses and drive long-term value.

- **ESG Framework:** Our ESG Framework dovetails with our mission to deliver the best possible risk-adjusted returns on private and liquid credit investments to our clients. The investment team, as part of the due diligence and credit analysis, is responsible for ESG due diligence, which serves as an input in its investment thesis presented to the Investment Committee or applicable Portfolio Manager. The Investment Committee, or the Portfolio Manager, will determine whether to pursue or consummate a prospective investment based upon the investment thesis, which often includes ESG considerations.
- **ESG Forum:** HPS established an internal group and tasked it with driving and unifying its firmwide ESG vision. Representation includes senior professionals from across HPS, bringing a diversity of voices to the evaluation of our ESG efforts. Chaired by the Firm’s Chief Administrative Officer, who is also a Governing Partner and a member of many Investment Committees, the ESG Forum convenes quarterly and dedicates time to review certain transactions determined to be Red or Amber under our internal ESG rating methodology.
- **ESG Solutions Team:** The ESG Team is responsible for the development and implementation of HPS’s ESG Framework. It is overseen by the Chief Administrative Officer and serves as the central access point for ESG-related expertise at the Firm. The team also facilitates investor inquiries and due diligence, provides bespoke investment due diligence support to the investment teams where needed, works with portfolio managers on certain fund launches and serves as liaison for our many external ESG relationships.

Our ESG Ratings

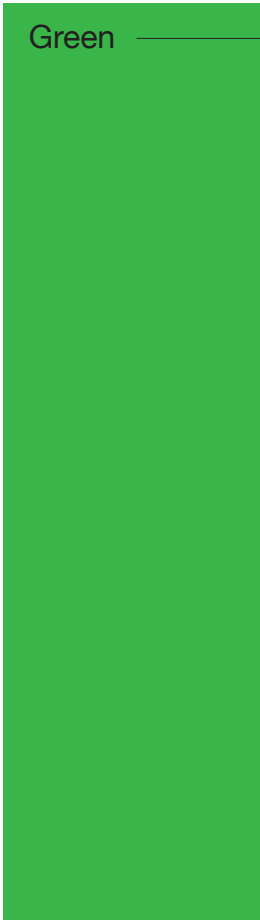
HPS has developed an ESG ratings approach that differentiates between the Firm’s private credit and liquid credit business. Conditions including access to management, access to information and corporate reporting, and the time frame required to enter into and exit an investment influence these two distinct approaches. Our private credit investment teams seek to determine internal ESG ratings based on industry-specific checklists, recognizing that certain industries have more ESG considerations than others, the former of which requires an added layer and the latter of which may warrant quicker reviews. The liquid credit teams utilize external data vendors and desk research to arrive at an ESG rating as available. As a part of its quarterly meetings, the HPS ESG Forum reviews select Amber and Red transactions across the Firm.



Companies with operations in one of the pre-defined High-Risk Areas of Concern



Companies with past material ESG incidents and/or potential for future ESG incidents



No identifiable material ESG concerns or prior incidents

Private Credit

Liquid Credit

1 Investment Process¹

- Review publicly available information and any other sourced materials
- During the pipeline stage, investment teams are encouraged to conduct an initial ESG assessment
- As the deal progresses, third-party databases are used, as available, to further support the initial ESG screen
- Solicit information from management team(s) or sponsor(s) to complete industry-specific checklist² and arrive at an internal ESG rating
- Devote additional third-party resources, as necessary, to further evaluate ESG considerations
- Endeavor to present key ESG findings, including industry-specific checklists, to applicable Investment Committee or Portfolio Manager, as part of the final approval

2 Post Investment

- Investment teams and the ESG Team, often augmented by third-party resources, monitor identified and material ESG issues on an ongoing basis, where possible
- Engage portfolio company management teams to address, control and mitigate identified ESG concerns, where applicable and practicable, throughout the life cycle of the investment
- Select Amber and Red investments are reviewed by the ESG Forum

1 ESG Considerations¹

- Review publicly available information and any other sourced materials
- Search relevant third-party databases to determine initial ESG designation
- Endeavor to use third-party data to assist in assigning an internal ESG rating (Green, Amber, Red)

2 Post Investment

- Investment teams and the ESG Team, often augmented by third-party resources, monitor identified and material ESG issues on an ongoing basis, where possible
- Where practical, and as needed, investment teams solicit information from company management
- Select Amber and Red investments are reviewed by the ESG Forum

¹General description of our process. May not occur with every investment and may occur in varying degrees with different investments. | ²The quality and granularity of the information in an ESG Checklist will generally depend on HPS’s role in and the size of the investment.



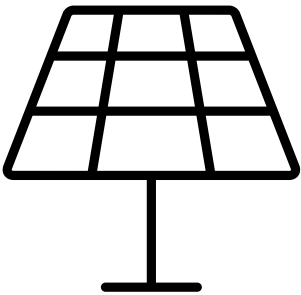
VOICES

Ashwant Bihal
Managing Director,
Risk

“As our investors pressed for increased attention to ESG, we realized we had an opportunity. We realized that strengthening our ability to analyze ESG factors could boost our overall ability to assess risk—and positively impact returns. Data and independent research suggest that addressing ESG risks can enhance investment results. As such, part of our mandate is to better inform our investment professionals with the relevant ESG data and help their engagement on these matters.”

Responsible Investment: Our Approach

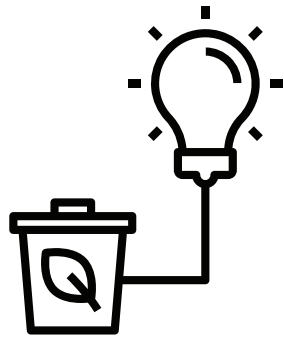
- The scope of our environmental, social and governance commitment is framed by our commitment to be a leader in this space. HPS’s sustainability initiatives are both internal, such as fully offsetting our estimated carbon footprint, and external, such as making sizable investments in renewable-energy companies that, in turn, augment energy security and accessibility.



Solar

\$2.5B+

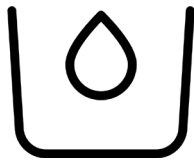
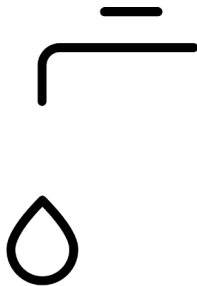
to finance multiple solar investments, including the installation of 10.9 million solar panels



Biomass

\$175M+

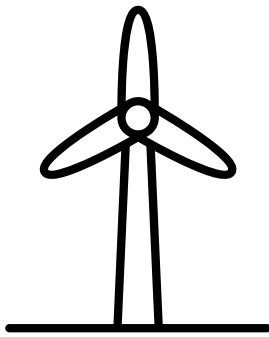
to facilitate the construction of biomass power plants offsetting an estimated 375 million pounds of coal



Water

\$150M

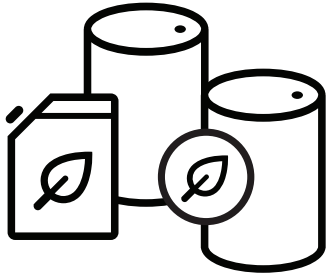
in a company developing a water treatment and recycling business



Wind

~\$80M

to fund low-cost wind-generation plants, including the installation of more than 320 turbines



Infrastructure

\$50M

to fuel biodiesel infrastructure investments



Solar Energy Innovation

Providing the types of flexible structuring solutions that we believe are required to address the energy transition challenge.

- **Initiative:** HPS in 2021 committed \$1.1 billion of term debt funding for six solar power generation and storage projects to be built by Project Proxima, a developer of low-carbon energy infrastructure.
- **Opportunity:** Project Proxima aims to demonstrate that greater value can be created in renewables through a strategy that relies less on traditional long-term power supply contracts. This meant the company needed a bespoke financing solution, and HPS was in a position to provide it.
- **Results:** The HPS-led financing was structured with term debt that supports construction and operation of the projects, which are located in California and Texas. It has structuring and pricing provisions designed to account for the portfolio’s higher proportion of uncontracted revenue. The investment builds a foundation of capital for Project Proxima to execute on its strategy for scalable, transformative, clean energy projects that aim to help decarbonize the economy.



- Where material ESG concerns are present, and ESG, ethical or reputational risks outweigh mitigating factors or circumstances, HPS may decline the investment. Alternatively, HPS may look for opportunities to engage, where applicable, with management and/or the sponsor, to support long-term sustainable businesses and optimize our investment outcome.

● **Private debt:** Many of HPS’s investments in private companies are based on direct engagement with portfolio companies owned by entrepreneurs, without the involvement of a private equity sponsor. This at times affords us the opportunity to garner information about ESG performance directly from the company and to seek an opportunity, where appropriate, to build ESG goals into the transaction.

▷ We view our interactions with our private portfolio companies as an opportunity to raise ESG topics as needed.

In some cases, HPS has a depth of industry knowledge that augments that of the company’s management team.

At times, simply presenting a potential portfolio company with our ESG checklist can initiate or elevate important conversations. Where we have identified a need and have the requisite influence, we may set ESG performance metrics the portfolio company is expected or incentivized to meet. Where ESG considerations were important to investment decision-making, we look for opportunities to engage with our portfolio companies on ESG topics throughout the life of our investment.

In a few select instances, we have been able to make a portfolio company’s ESG progress an explicit feature of their credit agreement, with rate incentives tied to key ESG performance metrics, such as planned purchases of renewable energy. This approach generally provides slightly higher interest rates for those who miss their KPI targets and slightly lower costs for those who have met them, based on our belief that those performance metrics can help create long-term value.

While the rate variance tied to ESG performance in these ratchet investments is typically small, linking ESG to discrete costs in this way sends a clear message to management that we believe proper attention to these issues can enhance long-term business performance and affect the bottom line. We may also develop better data about a company’s ESG performance, in the context of monitoring our investments, when we work with them to negotiate a ratchet of this kind.

SPOTLIGHT

Business Continuity and Carbon Neutrality at HPS



- HPS has two continuously operating data centers—all servers and desktops (via a Virtual Desktop Infrastructure) are hosted in these data centers.
- Our business continuity plans (BCPs) outline emergency preparedness and response, contingency operations and policies pertaining to the prompt resumption of all essential operations, as well as address epidemics and pandemics.
- Our BCP is reviewed internally by our Chief Technology Officer periodically.
- HPS partnered with a forestry conservation project in northern New Jersey.
- HPS purchased 16,000 Verified Emission Reductions (VERs)—equivalent to one metric ton of CO₂—enabling the Firm to fully offset its estimated 2021 carbon footprint—a status we aim to maintain moving forward.

CASE STUDY

Electric Vehicle Leasing

Providing creative funding solutions for the transition to a clean economy.

- **Initiative:** HPS’s Asset Value (AVF) Platform provides leases and loans to help small and medium-sized enterprises (SMEs); among these is a series of investments to expand adoption of electric vehicles, including e-bikes, buses and delivery fleets.
- **Opportunity:** The electrification of road transportation is an important part of bolstering infrastructure and energy resiliency, and innovative capital solutions are needed to make this change at scale. Financing partners must be willing to take the time to understand and embrace new vehicle technology as it comes to market. Leases and loans need to be tailored to the needs of specific businesses as this shift occurs. HPS believes this investment would not only provide attractive risk-adjusted returns but is in line with the Firm’s ESG goals.
- **Results:** Through its AVF Platform, HPS provides lease financing for a range of businesses that are positioned to drive the change to clean transportation.

In Germany, HPS’s AVF Platform funds e-bike leases for an innovative company that works with employers to offer their employees the option

of company bike leasing, helping decarbonize their employees’ commutes. Our funding platform has helped establish this business as one of the largest e-bike providers in Germany.

Elsewhere in Europe, HPS works with a company that retrofits fossil-fuel buses and trucks to give them a second life as electric vehicles.

In the United Kingdom, HPS is helping a delivery company to acquire heavy commercial delivery vehicles powered by compressed natural gas and small electric vehicles for “last mile” parcel delivery.

We believe HPS’s SME leasing and loan platform can, in part, be a powerful capital solutions provider for enterprises pursuing creative approaches to fortifying our transportation infrastructure. We can be creative, nimble and flexible as these businesses develop new answers to the world’s challenges.



VOICES

Lena Doan
Managing Director,
Renewables and Power

“We seek out management teams that share our values. We want to see that they’re committed to operational excellence, of course, but we also want to work with teams that are trying to do more to improve the sustainability of our power supply or drive better workplace safety. Why? Because we think that drives long-term value. As credit investors, we may not have functional control over these companies, but we at times have opportunities to work with those that prioritize ESG values.”

● Our goal is to apply ESG-focused processes for investments in liquid debt securities, including collateralized debt obligations (CLOs) and corporate bonds and loans.

Liquid credit analysts at HPS endeavor to consider ESG criteria in their investments. Although they may not have access to as much ESG information as our private credit team, ESG-focused assessments are generally performed for liquid credit investments based on available information. Among other things, liquid credit analysts generally review publicly available information, utilize third-party systems to run ESG-focused checks and, where feasible, engage with the company’s management in a deliberate and constructive manner.

We strive to understand the ESG variables that can help us make better investment decisions in liquid credits, where the pace is faster and the number of opportunities we consider is greater.

Q&A

Scott Crocombe
Managing Director,
Liquid Credit

Why is ESG important to HPS’s liquid credit investments?

We believe companies with strong ESG policies and attributes often have the potential to maintain better access to capital and exhibit better financial performance over time. Our commitment to ESG principles encourages positive change to help shape stronger businesses and gives us the potential for better risk-adjusted returns.

How has the approach to ESG changed in recent years?

For a long time, ESG was about the investments you didn’t want to make. Today, we are also looking at the significant opportunities ESG presents. We are seeing more opportunities to invest in companies that we consider to be leaders in ESG.

What differentiates HPS’s approach to ESG considerations?

While our approach to ESG continues to evolve, we believe in utilizing robust third-party data to analyze ESG considerations as vigorously as other investment risks and merits.

How do you balance investment goals with your clients’ ESG objectives?

Our goal is to substantively incorporate ESG data into our risk analysis—primarily to protect our investors’ capital but also to align with their ESG goals.



VOICES

Faith Rosenfeld

Governing Partner, Chief
Administrative Officer and Chair
of the HPS ESG Forum

“Our ESG work is important because we believe it allows us to achieve higher-quality risk-adjusted returns for our investors. HPS strives to be a leader in ESG among private credit investors. We want to be doing everything we can to push not only our own people but also our portfolio companies and our industry toward a more sustainable tomorrow.”

Risk Disclosures

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2022 Report

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