HPS

Environmental, Social, and Governance Integration Framework

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1. Overview

HPS Investment Partners ("HPS") aspires to be a partner of choice for investors seeking well performing ESG-integrated portfolios. Integrating environmental, social and governance ("ESG") considerations in our investment process with a view to controlling risks and capturing opportunities, developing an ESG reporting framework for our clients, and strengthening engagement with our portfolio companies where possible, have become important parts of our business strategy.

1.1. Purpose

HPS's objective is to provide creative capital solutions and generate attractive risk-adjusted returns for our clients. We believe a responsible approach to investing which incorporates ESG management enhances our ability to control downside risks and volatility in our credit portfolios.

1.2. Approach

We seek to examine ESG risks when we review investments for our clients, through the lens of credit investing. Where material ESG related investment risks or reputational risks outweigh the mitigating factors, HPS may choose to decline the investment or implement additional monitoring and potential engagement with the appropriate parties, in an effort to mitigate such risks. Our ability to integrate ESG considerations into the investment process is dependent on the varying degrees of access we have to ESG-related information.

As part of this firmwide ESG Framework (the "Framework"), we seek to engage with portfolio company management teams and/or private equity sponsors where applicable and practical in an effort to mitigate any identified material ESG risk(s) and aspire to help relevant parties assess the possible long-term financial and reputational impacts that could result from a failure to address ESG issues.

We recognize that industry guidelines and best practices for ESG integration continue to evolve, so we will review this Framework periodically and make updates or changes as appropriate.

1.3. Industry Involvement

HPS supports certain global frameworks and has drawn from them to inform this Framework. HPS is a signatory to the U.N.-supported Principles for Responsible Investment ("PRI") and a supporter of the Taskforce on Climate-Related Financial Disclosures ("TCFD").

Please note: This framework is dated as of May 2024 and is subject to ongoing change without notice. For prospective investors, this HPS internal framework should not be construed to constitute an HPS fund or account's offering materials. HPS continues to develop separately managed and customized portfolios in order to reflect individual clients' bespoke ESG expectations. For any questions regarding HPS's ESG integration efforts, please contact esg@hpspartners.com.

2. Governance

We deploy internal and external resources to support, manage, and establish a governance structure for our ESG integration efforts.

2.1. ESG Forum

In 2020, HPS established the HPS ESG Forum (the "Forum"). The Forum is tasked with providing input and guidance relating to the integration of the Firm's ESG Framework. It is chaired by HPS's Chief Administrative Officer and is comprised of investment and infrastructure professionals from across the Firm, which currently includes the Chief Financial Officer/Chief Risk Officer, General Counsel, and Chief Compliance Officer.

The Forum plays a role in HPS's post-investment monitoring process and aims to convene quarterly to review select new and legacy investments identified as having heightened ESG risks.

The HPS Carbon Taskforce was recently established as a subgroup of the ESG Forum. The Carbon Taskforce aims to assess the potential business and operational risks associated with carbon emissions and is comprised of select members of the ESG Forum and investment professionals across HPS's strategies.

2.2. ESG Team

The Chief Administrative Officer is primarily responsible for maintaining the ESG Framework at the Firm-level, while all HPS investment professionals are collectively responsible for considering and analyzing ESG factors throughout the investment process, as applicable.

HPS has a dedicated ESG Team that currently consists of 5 full-time professionals, based in New York and London. The team is overseen by the Chief Administrative Officer. It provides, among other things, centralized internal and external periodic and ad-hoc reporting, and supports the ESG due diligence process and ongoing monitoring activities, as applicable. HPS professionals from various functional areas across the Firm also support HPS's ESG program.

2.3. External Advisory

In instances where additional subject matter expertise is deemed necessary, HPS engages and consults with external advisors. Among other topics, such advisors may provide support in the areas of climate foot-printing, data collection, ESG strategy development, and regulatory disclosure regimes.

2.4. Conflicts of Interest

The Framework and HPS's approach to ESG integration is designed to be in-line with the Firm's fiduciary duties to its clients. There are several potential and actual conflicts of interest that arise in connection with HPS's investment management services, including in connection with ESG related matters. HPS seeks to put in place policies and procedures designed to disclose and mitigate such potential conflicts of interest.

2.5. Proxy Voting

As a primarily credit investor, proxy voting is not central to our business; however, where applicable, HPS retains ISS to vote on all proxies in line with their proxy voting guidelines which include general guidelines on ESG issues. These guidelines can be viewed here. On a periodic basis, HPS Compliance reviews ISS's proxy voting guidelines.

3. ESG Framework Implementation Guidelines

We are committed to integrating ESG considerations in our investment process, monitoring issuers during the lifecycle of our investments, and, where appropriate and applicable, engaging with issuers and other relevant parties in an effort to mitigate identified material ESG risks. This is consistent with our view that investment risks can stem from material ESG factors including but not limited to, environmental compliance, fair labor practices, data privacy, business ethics, and reputational concerns associated with an issuer.

3.1. Pre-Investment Review and Evaluation

We seek to include ESG considerations as part of our investment process, aiming to identify, mitigate, and appropriately consider ESG-related risks and opportunities.

To reflect how factors such as access to management, access to information, and corporate reporting differ across our Liquid Traded Credit and Private Credit businesses, HPS has developed two distinct ESG due diligence processes (described in Sections 3.1.2 and 3.1.3). Across our investment strategies, we aim to identify:

Environmental risks which may include but are not limited to those resulting from climate change, emissions, and resource management.

Social risks which may include but are not limited to risks relating to human rights, labor rights, and community impact.

Governance risks which may include but are not limited to those relating to board governance, bribery and corruption, and employment practices.

HPS considers ESG risks of potential portfolio companies as part of its overall due diligence process.

Furthermore, HPS recognizes that businesses in certain sectors and sub-sectors may inherently have heightened ESG risks. As a result, HPS has a pre-defined list of “High-Risk Areas of Concern,” which is currently comprised of adult entertainment, coal, controversial weapons and firearms, gambling, hydraulic fracturing, mining and extraction, nuclear energy, payday lending, private prison operators, and tobacco and nicotine.

3.1.1 Approach to Exclusions

With the exception of certain funds and accounts whose mandates restrict investments in certain industries/business activities (including funds structured for Article 8 compliance under the EU Sustainable Finance Disclosure Regulation), HPS does not maintain a Firm-wide exclusion list. Rather, HPS endeavors to assess each investment on a case-by-case basis to understand its potential risks (including material ESG risks). Furthermore, HPS aims to identify investments that operate in HPS’s pre-defined High-Risk Areas of Concern (defined above), to assess and mitigate any material concerns.

3.1.2. Liquid Traded Credit

Although HPS liquid credit investment teams may not have access to the same level of information as our private credit teams, they endeavor to address ESG factors in their investment process. To do so, liquid credit analysts generally review publicly available information and utilize third party systems to run ESG-focused searches for adverse-events and to identify investment relevant risks and potential mitigants.

Moreover, for liquid credit investments in companies with identifiable exposure or significant adjacencies to HPS's pre-defined High-Risk Areas of Concern, HPS strives to utilize available information to further assess potential related reputational risks and to identify mitigating factors.

3.1.3. Privately Negotiated Credit

When conducting diligence in our private credit investment strategies, we may be able to obtain greater ESG-related information relative to diligence conducted in our liquid credit strategies.

In addition to leveraging public information and subscription-based databases, the due diligence process for HPS private credit investments is primarily accomplished through HPS's ESG Checklists, which are designed to collect information on prospective investments. The ESG Checklists include several environmental, social, and governance-related questions which may vary based on industry and deal dynamics. For investments in companies identified as having direct or adjacent exposure to HPS's pre-defined High-Risk Areas of Concern, our High-Risk Area of Concern Checklists collect additional information to assess heightened ESG risks. The extent of the information collected through the ESG Checklists depends on the level and degree of information available to HPS in light of its role, as well as the scope and type of investment, in a given transaction. As part of the final private credit investment approval process, the relevant investment team endeavors to present material ESG findings (if any), including the completed ESG Checklist(s), to the applicable Investment Committee or portfolio manager. The foregoing process may be modified in certain situations. HPS's Chief Administrative Officer is also a member of all key private credit Investment Committees at HPS.

3.2. Ongoing Monitoring and Stewardship

We endeavor to incorporate ESG considerations in monitoring our existing investments, as appropriate, as part of our ongoing portfolio evaluation and risk management processes. HPS ESG Forum meeting agendas include dedicated time to discuss and monitor certain current private and liquid credit investments with identified material ESG risks.

In certain cases, HPS may engage in collaborative stewardship efforts with co-investors and/or the sponsor of certain private credit investments to better collect information and mitigate ESG risks.

In addition to co-investor/sponsor engagement, HPS industry stewardship may include participating in industry working groups that are focused on standardizing ESG information collection and reporting.

3.2.1. Liquid Traded Credit

For our liquid credit portfolio companies, HPS utilizes subscription-based databases and other paid services, in an effort to monitor the reputational risks associated with our portfolios on an ongoing basis. HPS also from time to time may seek to collect additional information from sponsors and/or management with respect to adverse events.

3.2.2. Privately Negotiated Credit

For privately negotiated credit investments, we endeavor to update the HPS ESG Checklists annually and in instances where we make a new financing commitment to an existing portfolio company, in accordance with internal protocol.

If practical, as part of our ESG stewardship, we may seek to engage with portfolio company management teams and/or private equity sponsors, which may include efforts to mitigate any identified ESG risks, and to help assess any potential long-term financial and reputational risks that can result from a failure to address ESG issues.

3.3. Approach to Climate Change

For the majority of its private and liquid credit funds, HPS uses a combination of reported and estimated data to calculate absolute financed emissions of its portfolios (covering Scope 1, Scope 2 and Scope 3 emissions) and weighted average carbon intensity (WACI) on an annual basis.

For privately negotiated credit investments, material risks resulting from climate change, such as regulatory and physical risk, may in the future form the basis for prioritizing certain engagement activities with the applicable portfolio companies.

Additionally, as discussed in Section 3.1.3., HPS's ESG Checklists may also include certain climate-related questions, such as issuers' emissions profile as well as various physical and transitional climate-related risks where applicable. HPS's access to such information varies based on investment strategy and our role and scope of investment in each transaction.

3.4. Approach to Human Rights

As a global firm, HPS respects internationally recognized human rights and aims to not infringe upon human rights or contribute to human rights abuses. HPS aims to ensure that its employees' interactions with clients, suppliers and other stakeholders are consistent with the human rights laws in the jurisdictions in which we operate.

As part of private credit investment due diligence, HPS also has Know-Your-Client processes in place, and HPS's private credit ESG Checklists include specific human rights-related questions that are designed to, where relevant, assess human rights-related risks.

As part of HPS's due diligence and ongoing monitoring processes, in cases where HPS becomes aware of allegations of human rights violations in its existing or prospective portfolio companies' operations and supply chains, it endeavors to engage, and where possible, encourage the company to address and mitigate the risk of future violations.

4. ESG at HPS

At HPS, we believe that ESG starts with our Firm and our people.

In addition to incorporating ESG considerations into our investment process, HPS aims to mitigate ESG risks and adopt best practices in the day-to-day operations of our Firm. To that end, we strive to take proactive measures to identify, manage and improve upon material Firm-level ESG factors including, without limitation, cybersecurity, anti-corruption, anti-money laundering and business ethics.

Our people are our most important asset. As such, we will continue to focus on hiring and retaining the best talent and providing them with a workplace that allows them opportunities for advancement and reward based on merit and performance irrespective of their gender, race, religion, ethnicity, or sexual orientation. We are committed to having a diverse workforce across all our businesses, and HPS's Diversity, Equity and Inclusion Policy details our commitment to fostering, cultivating and maintaining a diverse, equitable and inclusive workplace.

HPS seeks to educate and train employees on ESG-related issues. The ESG Team endeavors to provide annual ESG-dedicated training to investment professionals and certain infrastructure professionals at HPS.

Our objective is to provide our employees with a workplace that stresses health and wellness. To that end, we are committed to continually evaluate our workplace for offerings which will enhance the wellbeing of our workforce and further our goal of creating a workplace that all our employees are proud of. These include, but are not limited to, enhancements to our physical facilities, benefits and other offerings to our employees.

5. Sustainable Finance Disclosure Regulation

This Framework also serves as a summary of the integration of sustainability risks into the investment processes of HPS Investment Partners, LLC ("HPS LLC") and HPS Investment Partners Luxembourg S.à r.l. ("HPS Lux"), as required by the EU Sustainable Finance Disclosure regulation (the "SFDR"). The Governing Partners of HPS and the Board of Directors of HPS Lux have approved the adoption of sustainability risk-related policy and processes.

5.1. Overview

Under the SFDR, "sustainability risk" means an ESG event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment. HPS LLC and HPS Lux therefore approach sustainability from the perspective of the risk that ESG events might cause a material negative impact on the value of clients' investments as described above.

The SFDR also requires HPS LLC and HPS Lux to make a statement on whether they consider the principal adverse impacts ("PAIs") of investment decisions on sustainability factors, in accordance with the specific regime outlined in the SFDR. HPS LLC and HPS Lux have initially opted not to comply with this regime and do not consider the PAIs of their investment decisions on sustainability factors. HPS LLC and HPS Lux are supportive of the policy aims of the PAI regime to improve transparency to clients, investors, and the market but, taking account of the nature of their activities and the types of products make available, HPS LLC and HPS Lux considers that it would be disproportionate to comply with the specific PAI regime of the SFDR at this time. However, as HPS LLC has more than 500 employees, it is required to publish a statement on due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factors in accordance with Article 4(1) of the SFDR. HPS LLC's statement can be found here.

5.2. Remuneration

HPS LLC and HPS Lux aim to ensure that individual employees' remuneration is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking. HPS LLC's remuneration practices include an assessment of an individual's performance, based on both quantitative criteria (for example, financial performance of the individual and their business unit) and qualitative criteria (for example, holistic assessment of general adherence to certain policies and procedures). The qualitative criteria used may include, among others, consideration of the employee's contribution to the overall control of downside risk and volatility in the investment portfolios and identification of attractive investment opportunities, and variable remuneration may be adjusted accordingly.