RESPONSIBLE INVESTMENT DDQ FOR PRIVATE DEBT INVESTORS
ABOUT THIS DDQ

This due diligence questionnaire (DDQ) has been developed to help investors better understand and evaluate private debt managers' approaches to responsible investment.

Investors can use the questionnaire when selecting an investment manager for a new mandate or monitoring an existing one. The PRI encourages investors to tailor and adjust the questions appropriately.

The DDQ should not be considered in isolation, but rather used to support a wider information-gathering process. The PRI encourages investors to:

- consider what additional resources are available to enhance their understanding of investment managers' answers; and
- engage with investment managers to seek additional information and clarification, where necessary.

NOTES ON USING THIS DDQ

This DDQ guides readers on the type of information each question is aiming to elicit. The PRI encourages investment managers to provide information that goes beyond these points where relevant, whilst keeping responses concise.

Some questions in the DDQ focus on the investment manager's organisation-wide approach to responsible investment, while others are specific to a particular investment strategy. The explanatory boxes under the section headings specify the focus of each set of questions.

Readers can refer to the PRI Reporting Framework glossary to clarify key terms.

Please contact assetowners@unpri.org if you have questions or feedback.

DOCUMENT CHECKLIST

Below is a suggested checklist of documents that investors can request from investment managers during the due diligence process.

<table>
<thead>
<tr>
<th>Organisation-level responsible investment documents</th>
<th>Strategy-level responsible investment documents</th>
<th>Organisation-level corporate sustainability documents</th>
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<tr>
<td>☐ Exclusions policy</td>
<td>☐ Samples of investment memos covering ESG factors</td>
<td>☐ Code of conduct</td>
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<tr>
<td>☐ PRI transparency report</td>
<td></td>
<td>☐ Corporate social responsibility / sustainability / ESG report</td>
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<tr>
<td>☐ Responsible investment policy</td>
<td></td>
<td>☐ Task Force on Climate-related Financial Disclosures (TCFD) report</td>
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<td>☐ Responsible investment reports (e.g., stewardship reports)</td>
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<tr>
<td>☐ Stewardship (engagement) / proxy voting policy</td>
<td></td>
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</tbody>
</table>
Questions in this sub-section ask for information about the organisation-level approach to responsible investment.

1.1 What is your organisation’s overall approach to responsible investment?
Please briefly explain your organisation’s responsible investment approach and the reasons behind it. Please add whether there have been any major developments in your organisation’s responsible investment process in the last 12 months.

1.2 Does your organisation have a responsible investment policy?
If yes, please provide a copy and state whether the policy is publicly available. Where relevant, please specify if this policy applies solely to private credit strategies or across the entire firm. Please also describe the process for reviewing and updating the policy.

If your organisation does not have a policy, or if the policy does not cover private credit strategies, please explain why.

1.3 Which industry initiatives, international standards, industry (association) guidelines, reporting frameworks, or other initiatives that promote responsible investment practices does your organisation participate in, support, or commit to?
As well as listing relevant initiatives, please provide a short description of why and how you participate in these initiatives. Where your organisation participates in multiple initiatives, please limit this description to what you consider to be the two most significant initiatives. Examples may include publicly supporting the goals of the Paris Agreement, being a PRI signatory and endorsing the TCFD recommendations. Please also confirm when you joined any initiatives.

1.4 How are (i) oversight responsibilities and (ii) implementation responsibilities for responsible investment structured within your organisation?
List the persons involved, their role, tenure and position within the organisation, and how they are qualified for this role. Also mention any relevant responsibilities held by committees and governance arrangements. Describe any external resources you may use.

1.5 How does your organisation ensure its investment professionals and other relevant staff are trained on responsible investment and stay up to date on relevant topics?
If your organisation provides training, assistance and / or additional resources, please describe them. This should include how often these are delivered, by whom, and to whom.

1.6 To what extent, if any, are responsible investment objectives incorporated into performance reviews and / or compensation mechanisms at your firm?
Please describe how any objectives are selected, defined and measured, and to which positions they apply, e.g., investment professionals, ESG teams, and at senior management or board level.

1.7 What are the options for including responsible investment commitments, and restrictions based on ESG factors, within fund formation contracts?
Please specify where the commitments and restrictions would be stated (e.g., in the LP agreement, side letters, a separately managed account). Where applicable, specify which commitments are expressed through these means and any policies or frameworks in place to monitor and manage them.
2. PRE-INVESTMENT

Questions in this sub-section ask for information on the investment strategy that’s being assessed.

2.1 Are screens relating to ESG factors applied to this strategy?
In the response, please mention whether you can apply client-directed screens.

2.2 How do you identify material ESG factors and incorporate this analysis into the investment decision-making process?
In your response please:
- Explain your process, mentioning any tools, standards (e.g., the SASB Standards / IFRS Sustainability Disclosure Standards), and data you use to determine which ESG risks and opportunities are material.
- Describe your approach to scenario analysis in relation to material ESG factors, such as climate change, and whether it is conducted in line with any specific requirements or standards, such as TCFD guidance.
- Describe how material ESG factors, once identified, impact investment decisions (e.g., if they affect your approach to potential investments, or lead to abandoning certain investments).
- Provide recent examples of how your ESG integration process for this strategy functions in practice, including, where feasible, examples:
  - in which you have declined an investment; and
  - in which you have proceeded with an investment.

For the examples, please state the percentage of your investments they represent or the size of the investment. Where possible, one of the examples should relate to one of the strategy’s top ten holdings. Please include information on environmental, social and governance factors that you analyse.

2.5 Describe how your ESG due diligence process is documented as part of the investment decision-making process.
Please provide samples of investment memos that cover ESG factors.

3. POST-INVESTMENT

Questions in this sub-section ask for information on the investment strategy that’s being assessed.

3.1 Do you have a formal process for monitoring, managing, and tracking ESG factors post-investment?
If yes, please describe the process, the ESG factors you monitor and whether investees are monitored for involvement in negative ESG incidents / controversies. Please specify how you engage with the borrower on ESG factors post-investment and mention whether oversight of such factors is discussed regularly with the borrower’s management. Explain your approach where borrowers do not comply with the ESG commitments included in the transaction documents.

If there is no formal process, please explain why not.

3.2 How do you approach ESG factors in situations where the borrower is in default or facing stress?
If it differs from the standard approach, please explain how. For example, mention if the nature of engagement changes.

3.3 Do you analyse whether your approach to ESG factors influences the financial performance of your investments?
Please describe whether the analysis is conducted quantitatively and / or qualitatively. Describe the challenges and complexities involved, and your approach to addressing these.
4. SUSTAINABILITY OUTCOMES

Questions in this section are applicable to the specific strategy being assessed.

4.1 Do you invest in sustainability-linked loans (SLLs)?
If yes, please explain, where applicable:
- your process for establishing whether an SLL is appropriate;
- the process for working with borrowers to establish key performance indicators (KPIs) and sustainability performance targets (SPTs). Specify whether sustainability-linked KPIs are included in loan contracts and whether details on the terms of SLLs are disclosed;
- how borrower performance against KPIs and SPTs is assessed and verified; and
- whether you require SLLs to be made in line with any industry frameworks, such as the Sustainability-Linked Loan Principles.

Provide two examples of SLLs you have invested in, covering the sustainability-linked targets and the economic outcomes linked to KPIs and SPTs being met.

4.2 Do you consider sustainability outcomes and impacts relating to this strategy?
If yes, please describe the outcomes you identify and any actions you take to help influence them. Disclose any frameworks or tools you use to identify these outcomes (e.g., the Sustainable Development Goals, the Paris Agreement). Specify whether both positive and negative outcomes are identified. Describe how you collaborate with others, such as private equity sponsors, to take action on sustainability outcomes. Provide recent examples to illustrate your processes.

If no, explain why not.

5. REPORTING

Questions in this sub-section ask for information on the investment strategy that’s being assessed.

5.1 What information do you disclose to investors on responsible investment activities and performance?
Please describe the type of information disclosed (e.g., engagement activity, climate performance, sustainability outcomes, ESG screens). List any specific metrics disclosed (e.g., weighted average carbon intensity, carbon footprint). Describe what information is publicly reported and the frequency, and what is provided privately to clients and the frequency.

5.2 How do you disclose material ESG incidents to investors?
Describe any processes you have to ensure material ESG incidents are reported.

6. CORPORATE SUSTAINABILITY

The question in this sub-section asks for information about the organisation-level approach to responsible investment.

6.1 Does your organisation identify and manage the ESG risks, opportunities and impacts connected to its internal operations?
If yes, please provide a brief overview. Examples may include initiatives to reduce the organisation’s carbon footprint and to enhance the diversity of its investment teams.

7. ADDITIONAL INFORMATION

The question in this sub-section asks for information about the organisation-level and / or strategy-level approach to responsible investment.

7.1 Is there any information on your responsible investment approach not otherwise covered in the DDQ that you would like to share?

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1 The Sustainability-Linked Loan Principles define SLLs as loan instruments and / or contingent facilities (such as bonding lines, guarantee lines or letters of credit) for which the economic characteristics can vary depending on whether the borrower achieves ambitious, material and quantifiable predetermined sustainability performance objectives.
Below we illustrate how the questions in this DDQ align, either fully or partially, to the following indicators within the PRI 2023 Reporting Framework and the Alternative Credit Council Questionnaire for the Due Diligence of Private Credit Managers.

The mapping also indicates whether our DDQ questions correspond with the European Union's Sustainable Finance Disclosure Regulation (SFDR).

<table>
<thead>
<tr>
<th>Due diligence questions</th>
<th>2023 PRI Reporting Framework indicator(s)</th>
<th>Alternative Credit Council Questionnaire for the Due Diligence of Private Credit Managers</th>
<th>Sustainable Finance Disclosure Regulation (SFDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 What is your organisation’s overall approach to responsible investment?</td>
<td>SLS 1</td>
<td>Policy, Governance, Commitments and Resourcing: 1.1</td>
<td>-</td>
</tr>
<tr>
<td>1.2 Does your organisation have a responsible investment policy?</td>
<td>PGS 1, 2, 3, 8, 9, 11.1</td>
<td>Policy, Governance, Commitments and Resourcing: 1.2</td>
<td>Yes</td>
</tr>
<tr>
<td>1.3 Which industry initiatives, international standards, industry (association) guidelines, reporting frameworks, or initiatives that promote responsible investment practices does your organisation participate in, support, or commit to?</td>
<td>PGS 17, 18</td>
<td>Policy, Governance, Commitments and Resourcing: 1.3</td>
<td>Yes</td>
</tr>
<tr>
<td>1.4 How are (i) oversight responsibilities and (ii) implementation responsibilities for responsible investment structured within your organisation?</td>
<td>PGS 11, 12</td>
<td>Policy, Governance, Commitments and Resourcing: 1.4</td>
<td>-</td>
</tr>
<tr>
<td>1.5 How does your organisation ensure its investment professionals and other relevant staff are trained on responsible investment and stay up to date on relevant topics?</td>
<td>PGS 15</td>
<td>Policy, Governance, Commitments and Resourcing: 1.5</td>
<td>-</td>
</tr>
<tr>
<td>1.6 To what extent, if any, are responsible investment objectives incorporated into performance reviews and / or compensation mechanisms at your firm?</td>
<td>PGS 13, 14</td>
<td>Policy, Governance, Commitments and Resourcing: 1.6</td>
<td>Yes</td>
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<td>1.7 What are the options for including responsible investment commitments, and restrictions based on ESG factors, within fund formation contracts?</td>
<td>-</td>
<td>1.7</td>
<td>Yes</td>
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<tr>
<td><strong>PRE-INVESTMENT</strong></td>
<td></td>
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<tr>
<td>2.1 Are screens relating to ESG factors applied to this strategy?</td>
<td>FI 18</td>
<td>Pre-investment: 1.1</td>
<td>-</td>
</tr>
<tr>
<td>2.2 How do you identify material ESG factors and incorporate this analysis into the investment decision-making process?</td>
<td>FI 5, 6</td>
<td>Pre-investment: 1.2</td>
<td>Yes</td>
</tr>
<tr>
<td>2.3 Describe your process of engagement with the borrower, private equity sponsor or co-lending parties on ESG considerations.</td>
<td>PGS 23, 24, 24.1, 25, 27</td>
<td>Pre-investment: 1.3</td>
<td>Yes</td>
</tr>
<tr>
<td>2.4 Do you use the ESG Integrated Disclosure Project template as part of your investment process?</td>
<td>-</td>
<td>Pre-investment: 1.4</td>
<td>-</td>
</tr>
<tr>
<td>2.5 Describe how your ESG due diligence process is documented as part of the investment decision-making process.</td>
<td>-</td>
<td>Pre-investment: 1.5</td>
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<td><strong>POST-INVESTMENT</strong></td>
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<tr>
<td>3.1 Do you have a formal process for monitoring, managing and tracking ESG factors post-investment?</td>
<td>FI 13</td>
<td>Post-investment: 2.1</td>
<td>Yes</td>
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<tr>
<td>3.2 How do you approach ESG factors in situations where the borrower is in default or facing stress?</td>
<td>-</td>
<td>Post-investment: 2.2</td>
<td>Yes</td>
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<td>3.3 Do you analyse whether your approach to ESG factors influences the financial performance of your investments?</td>
<td>FI 14</td>
<td>Post-investment: 2.3</td>
<td>-</td>
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<tr>
<td><strong>SUSTAINABILITY OUTCOMES</strong></td>
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<tr>
<td>4.1 Do you invest in sustainability-linked loans (SLLs)?</td>
<td>-</td>
<td>Sustainability outcomes: 3.1</td>
<td>-</td>
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<tr>
<td>4.2 Do you consider sustainability outcomes and impacts relating to this strategy?</td>
<td>PGS 47, 47.1, 47.2, 48, 48.1, 49, 49.1, 49.2, 50, SO 1, 2, 2.1, 3, 3.1, 3.2, 4, 4.1, 5, 6, 7, 8, 9, 10, 11, 12, 13</td>
<td>Sustainability outcomes: 3.2</td>
<td>Yes</td>
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<td>REPORTING</td>
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<tr>
<td>5.1 What information do you disclose to investors on responsible investment activities and performance?</td>
<td>PGS 16, 17, 18</td>
<td>Reporting: 4.1</td>
<td>Yes</td>
</tr>
<tr>
<td>5.2 How do you disclose material ESG incidents to investors?</td>
<td>-</td>
<td>Reporting: 4.2</td>
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<td>CORPORATE SUSTAINABILITY</td>
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<td>6.1 Does your organisation identify and manage the ESG risks, opportunities and impacts connected to its internal operations?</td>
<td>-</td>
<td>Corporate sustainability: 2.1</td>
<td>-</td>
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<td>ADDITIONAL INFORMATION</td>
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<td>7.1 Is there any information on your responsible investment approach not otherwise covered in the DDQ that you would like to share?</td>
<td></td>
<td>Additional information: 3.1</td>
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</table>
APPENDIX 2: ACKNOWLEDGEMENTS

We would like to thank the following working group participants for their feedback and contributions to this DDQ:

- Apex Group, Misha Jones
- Cornerstone Group, Gerry Fields
- Hayfin, Caoimhe Bain
- KKR, Jeannie Cho
- MV Credit, Yasmin Hamze
- Macfarlanes, Rachel Richardson
- New York City Comptroller’s Office, Jimmy Yan
- Oak Hill Advisors, Erin Hartley
- Pension Protection Fund, Sanjay Mistry
- TfL Pension Fund, Wei Zhang
The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with

UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org