PEMBERTON

TCFD Report 2023

Introduction

We are pleased to share this inaugural Task Force on Climate-Related Financial Disclosures ("TCFD") report.

We recognise that climate change is an important and growing area of concern for many of our clients, both from a risk-return and an impact perspective. The purpose of this report is to provide clients and other stakeholders with an understanding of our business' and investments' exposure to climate-related risks, and our management of these risks.

It sets out how Pemberton incorporates climate-related risks and opportunities into governance, strategy, risk management and metric and targets, consistent with the TCFD recommendations[1].

Pillars of the recommended climate-related financial disclosures

Governance

The organisation's governance around climate-related risks and opportunities.

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

Risk Management

The processes used by the organisation to identify, assess and manage climate-related risks.

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

As global economies address climate change and the lower-carbon transition, the potential impacts are primarily related to our investment process. Our ESG due diligence and monitoring processes for investments focus on mitigating risk and maximising returns. We take climate-related factors into account when such factors are a potential risk for a proposed investment. We also believe climate change can impact the resilience and growth of our corporate borrowers and other portfolio assets ("investee entities") and any material concerns are monitored during the holding period.

Ultimately, we think that undertaking climate impact assessments and encouraging borrowers to reduce their carbon footprint helps protect limited partner (LP) capital and returns.

This report covers the reporting period from 1 January 2023 to 31 December 2023. It is focused on the business and investment activities carried out by our United Kingdom legal entity, **Pemberton Capital Advisors LLP (PCA)**. PCA is an investment advisor to **Pemberton Asset Management S.A. (PAMSA)**, an Alternative Investment Fund Manager (AIFM).

[1]Published in 2017 and updated in 2021, TCFD recommendations are being adopted as the foundation for new international sustainability standards. For example, the requirements in IFRS S2 Climate-related Disclosures issued by the International Sustainability Standards Board (ISSB) and effective from January 2024 (depending on jurisdiction), integrate, and are consistent with TCFD.

Pemberton is committed to a robust approach to managing and disclosing climate-related risks.

As Chair of both the PCA Board and the ESG Committee, I take an active role in ensuring that there is strong governance in place to ensure accountability for the work that extends throughout the firm on delivering our proactive ESG agenda, including assessment and management of the financial risks of climate change.

This report aims to provide a transparent and thorough overview of the processes already in place to integrate climate considerations, including illustrative disclosures of case studies and metrics where available. Building upon this foundation, we will continue to evolve our climate-related capabilities and we look forward to reporting on our progress.

Keith Jones
Chairman

Foreword

As a prudent investor, it is important we understand the risks and opportunities in the transition to a lower-carbon economy, as well as changing weather patterns from rising temperatures, including the impact on our investment portfolios and client franchise.

As outlined in this report, Pemberton takes a proactive approach to supporting our portfolio companies' risk mitigation, preparedness, and disclosure to comply with climate regulation in Europe and the UK. Although we currently have no material exposure to high-risk climate sectors such as fossil fuels[2], the preparation for our TCFD disclosure has sharpened our focus on investments where there is potentially value at risk from climate change.

As a lender and not an owner, we do not control the boards or management teams of our portfolio companies, but there are several ways that Pemberton can help these businesses focus on meaningful climate action. These include incentives (e.g. reduced interest rates on loans if a portfolio company achieves agreed climate and other sustainability targets) and – where Pemberton does have a degree of influence, specifically as the lead or sole lender to companies in our direct lending strategies - to actively engage on these issues.

We acknowledge the heightened level of focus needed as the opportunity to achieve the Paris Agreement objective is closing. Our AIFM, PAMSA, became a signatory of the Net Zero Asset Managers (NZAM) initiative in 2021 and has a voluntary target to bring 40%[3] of our direct lending invested capital into alignment with net zero by 2030, with a goal of reaching 100% alignment of assets with net zero by 2050. Of course, investment managers cannot act in isolation. We are dependent on a global effort to transition, including policy changes that support shifts in market preferences to low carbon technologies, and on governments following through on their own climate commitments.

The litmus test for our sustainable investing is successful collaboration with clients to meet their sustainability objectives. We understand that this disclosure of Pemberton's strategy and exposure to climate will be important to some of our limited partners (LPs) as they increasingly align their investment strategy with their climate commitments and diversify their exposure to climate risks.

Symon Drake-Brockman
Managing Partner

[2]None aside from a limited exposure in Working Capital Finance (WCF) to short-term receivables arising from oil, oil services and metallurgical coal supply contracts, representing <1% of overall AUM for Pemberton as of 31 December, 2023.
[3]The 40% target assumes that Pemberton is the sole or lead lender, with a degree of influence on portfolio companies to align with net zero milestones and criteria as defined by the Net Zero Investment Framework (NZIF), Private Debt Guidance, produced by IIGCC (Investor Group on Climate Group) and published May 2024.

Pemberton Value Proposition

A diversified multi-strategy offering supports our clients investment objectives:

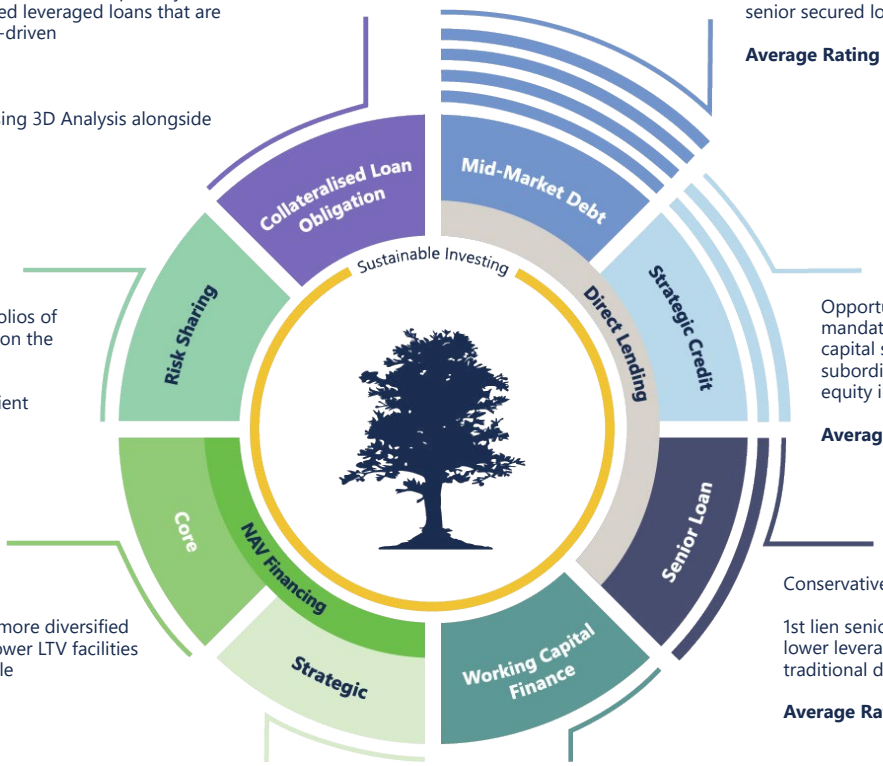
Targets senior secured investments in publicly rated, liquid, broadly syndicated leveraged loans that are predominantly sponsor-driven

Actively managed

Diversified portfolios using 3D Analysis alongside relative value

Traditional direct lending focused on 1st lien senior secured loans

Average Rating (Internal[1]): B



Participation in diversified portfolios of IG corporate or SME loans held on the balance sheet of leading banks

High running coupons and resilient return profile

Opportunistic 'through the cycle' mandate, providing flexible capital solutions across senior and subordinated loans and opportunistic equity investments

Average Rating (Internal[1]): B

Senior secured lending against more diversified collateral portfolios, targeting lower LTV facilities with investment grade risk profile

External Rating: A to BBB

Conservative, bank style lending

1st lien senior secured loans with lower leverage and LTV relative to the traditional direct lending strategies

Average Rating (Internal[1]): BB-

More flexible financing including senior loans and preferred equity against more concentrated collateral portfolios or targeting higher LTV facilities with higher returns

Short-term working capital financing to large mid-market corporates predominantly in Europe, UK & USA

Public & Private Companies

Average Rating (Internal[2]): BB-

NAV Financing

Cross collateralised lending to private equity funds, GPs and LPs against seasoned and diversified portfolios of companies

Direct Lending

Predominantly targeting European mid-market companies backed by leading sponsors

[1]Obligor Rating, S&P equivalent.
[2]Insured share class is A-equivalent credit quality.

For Illustrative Purposes only.

Status of TCFD implementation

Implementing the TCFD recommendations is a journey to improving our approach to managing climate risks and opportunities and we expect that our TCFD disclosures and the actions we take to address climate change will advance over time.

In 2023, we focused on developing our interim (2030) net zero target and methodology to assess Paris Agreement alignment of Pemberton's direct lending strategy, as well as iterating on our ESG Margin Ratchet to reflect our climate objectives.

Pemberton's progress against TCFD disclosure framework and requirements

1	**Governance**	**Disclose the organisation's governance around climate-related risks and opportunities.**	
1.1	Board oversight	Describe the Board's oversight of climate-related risks and opportunities.	●
1.2	Management's role	Describe management's role in assessing and managing climate-related risks and opportunities.	●
2	**Strategy**	**Disclose actual and potential impacts of climate-related risks and opportunities on the organisations business, strategy and financial planning, where in the information is material.**	
2.1	Description of climate risks and opportunities	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	●
2.2	Impact of climate risks and opportunities	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	●
2.3	Resilience to climate risks and opportunities	Describe the potential impact of different scenarios, including a 2 degree scenario, on the organisation's businesses, strategy, and financial planning.	●
3	**Risk Management**	**Disclose how the organisation identifies, assess, and manages climate-related risks.**	
3.1	Identification and assessment of climate risks	Describe the organisation's processes for identifying and assessing climate-related risks.	●
3.2	Management of climate risks	Describe the organisation's processes for managing climate-related risks.	●
3.3	Integration of climate risks	Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	●
4	**Metrics and Targets**	**Describe the metrics and targets used to assess and manage relevant climate-related risk and opportunities, where the information is material.**	
4.1	Climate-related metrics	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	●
4.2	Operational emissions	Disclose Scope 1, Scope 2, and if appropriate Scope 3 greenhouse gas emissions, and the related risks.	●
4.3	Climate related targets	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	●

● Complete ● In progress

Source: Pemberton Capital Advisors LLP.

TCFD Recommendations: Pemberton Summary Index

TCFD Recommendations to Asset Managers		Section Focus	Title	Summary
Governance	Describe the board's oversight of climate related risks and opportunities and describe management's role in assessing and managing climate-related risks and opportunities.	Pemberton's governance concerning climate-related risks and opportunities.	Board's role.	The ESG Committee, a sub-committee of the PCA Board, has delegated responsibility from the Board for ESG oversight, including climate matters such as monitoring progress towards Pemberton's net zero commitment. **Page 10**
			Management's role.	The Management Committee reviews ESG strategic priorities for the firm and ensures clearly defined roles and responsibilities for oversight and implementation of sustainable investing, including Pemberton's portfolio managers' integration of climate considerations in the investment process. **Page 12**
Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Asset managers should describe how climate-related risks and opportunities are factored into investment strategies and how the investment strategy might be affected by the transition to a low-carbon economy.	Identified risks and opportunities, and time horizon lens applied by our investment teams.	Keen focus on downside risk in private credit. Identified climate risks have the potential to ultimately impact fund performance, or increase costs for funds and investments. **Page 16**
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.		Impacts of these risks on our investments.	Climate-related factors are assessed as part of the risk-return profile of a proposed investment. At the portfolio level we focus on the 'high impact' sectors where there is potentially value at risk. **Page 18**
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.		Scenarios that could alter the base for 'business-as-usual' assumptions of our strategy.	Assessment of physical risk in countries in which our borrowers are based. Dual lens (physical, transition) consideration of scenario outcomes for portfolio sectors that have relatively higher climate risk. **Page 23**
Risk Management	Describe the organisation's processes for identifying and assessing climate-related risks.	How Pemberton identifies, assesses and manages climate-related risk.	Risk Management integration of climate risk and tools to identify climate risk.	The firm's 'three lines of defence' framework, how it applies, and carbon exposure assessed with data. **Page 28**
	Describe the organisation's processes for managing climate-related risks.		Engagement and other levers to manage risk.	Engagement, incentives (e.g. margin ratchets), annual questionnaires, industry collaboration. **Page 31**
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.		Risk management processes and procedures being put in place.	Supporting policies and cross-functional activity, e.g. training and balanced scorecard approach, to ensure compliance. **Page 33**
Metrics and Targets	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Metrics and targets: climate-focused investment exposure.	Top down (portfolio) and bottom up (asset) metrics considered.	Sector risk (portfolio), asset level metrics. **Page 37**
	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions and the related risks.		Decarbonising our investment portfolios.	Illustrative carbon footprint (direct lending) with TCFD metrics. **Page 36**
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.		NZAMI target.	Interim 2030 target and associated engagement threshold. **Page 37**

Source: Pemberton Capital Advisors LLP.

1. Governance

Governance

This section offers insight to Pemberton's governance surrounding climate-related risks and opportunities and how these are identified, assessed, managed and monitored by our firm.

1.1 The Board's oversight of climate-related risks and opportunities

The Board agenda primarily focuses on strategy, performance, value creation, culture and conduct, accountability, and risk management. Sustainability matters, including those related to climate, form part of many elements of the Group's strategy and are integrated into the agenda-setting process, as appropriate.

The Board has delegated oversight responsibilities for ESG to the ESG Committee, a sub-committee of the PCA Board, with a remit to consider ESG strategy, policies, implementation and targets across the business. This includes climate matters such as monitoring Pemberton's progress towards our net zero commitment. Members of Pemberton's senior management team sit on the ESG Committee, including the CEO, Chief Operating Officer, and Chairman (who chairs the Committee).

Management Information (MI) tracked by the ESG Committee includes a focus on: Regulation and Reporting, Governance and Training, Portfolio ESG and Carbon Data Monitoring, Market Positioning, and Pemberton's Corporate Social Responsibility (CSR).

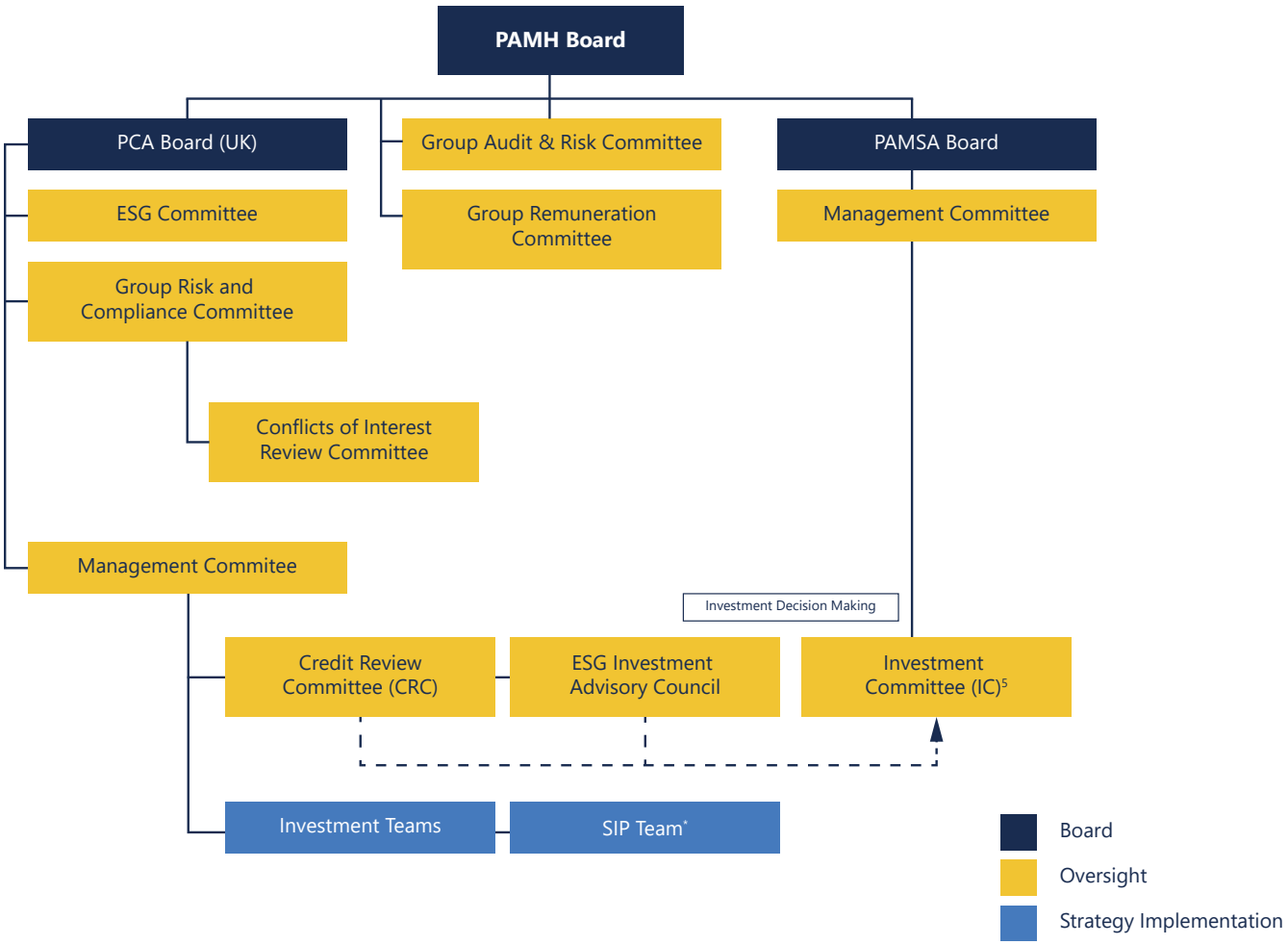
Pemberton's Head of Sustainable Investing is a member of the Committee and supports the development of appropriate processes to monitor and report against implementation of the ESG Policy, including exposure to risks arising from climate change.

In FY23, ESG Committee agenda items included the review of:

- Pemberton's ESG Margin Ratchet v3.0[4], which is offered to all direct lending assets and incentivises performance improvement as the loan interest margin is reduced if the borrower delivers against predefined sustainability targets, including a carbon reduction target. Additionally, there is a 'bonus ratchet' for net zero alignment offered in all ratchets alongside 1-2 other sector-appropriate key performance indicators (KPIs).
- In terms of financed portfolio emissions, both the PAMSA Board and the PCA ESG Committee approved our interim net zero target to 2030, as part of Pemberton's commitment as a signatory of the NZAM initiative. The ESG Committee is responsible for monitoring progress and will ensure reporting of the same to the Board.

[4]Originally launched in 2020, the latest iteration of Pemberton's ESG Margin Ratchet, version 3.0, was rolled out as of 2024.

Organisational oversight of climate-related matters



*Dedicated Sustainable Investment Process (SIP) team.

Source: Pemberton Capital Advisors LLP.

Note: Pemberton Capital Advisors LLP (PCA) is an investment advisor to Pemberton Asset Management S.A. (PAMSA), an Alternative Investment Fund Manager (AIFM). Pemberton Asset Management Holdings (PAMH) is a private limited company incorporated in Jersey.

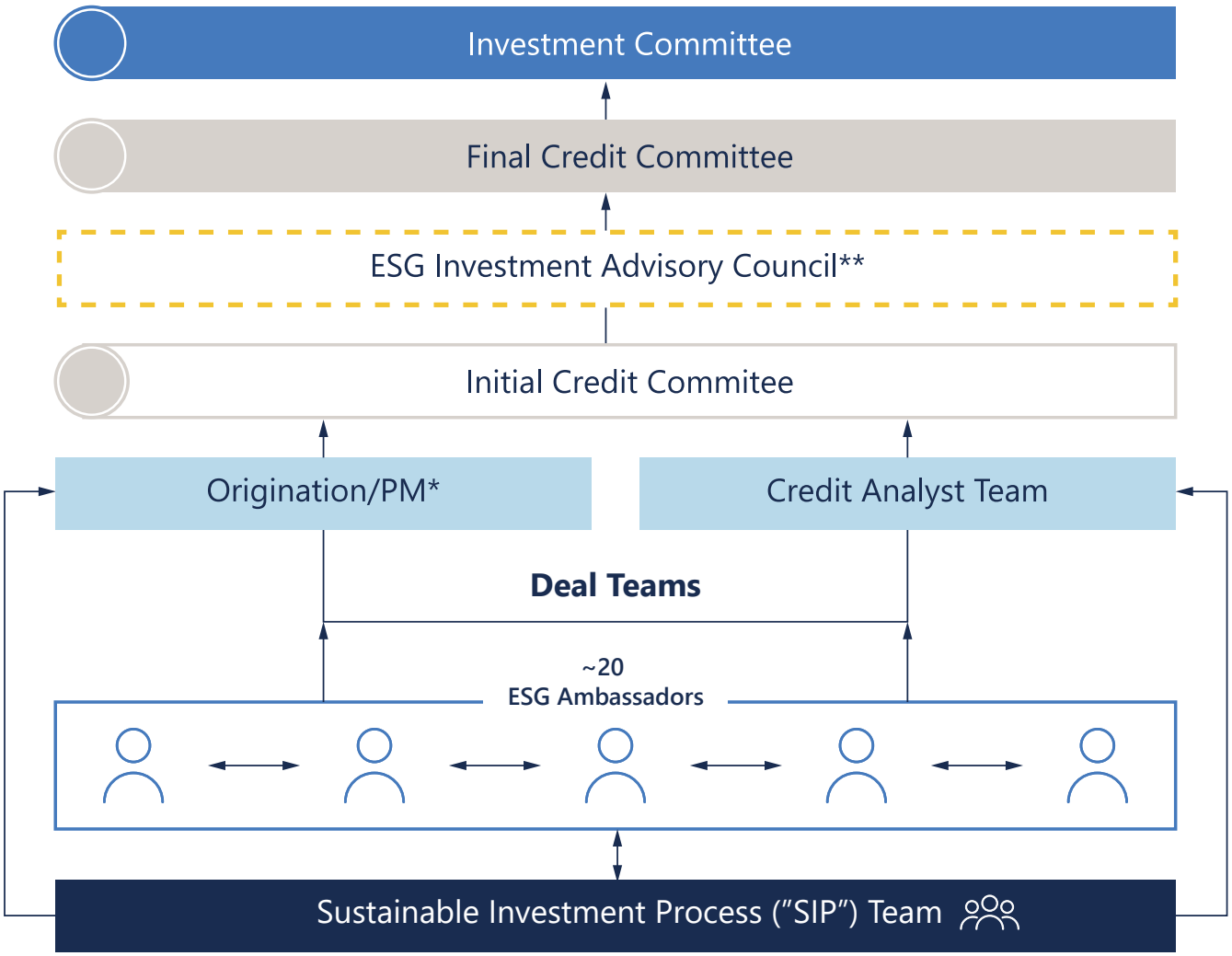
[5]With the exception of two strategies managed by PCA.

1.2 Management's role in assessing and managing climate-related risks and opportunities

The PCA Management Committee is responsible for the development and execution of the strategy and operational effectiveness of the Group. This includes reviewing the ESG strategic priorities for the firm and recommending for approval by the ESG Committee. The PCA leadership team further ensures that Pemberton's governance framework includes defined roles and responsibilities for the different facets of sustainable investing, as follows:

- Day-to-day implementation of the ESG Policy and the integration of climate-related considerations in investment processes, are the responsibilities of all portfolio managers and investment professionals.
- The dedicated Sustainable Investing Process (SIP) team is responsible for guiding and supporting Pemberton's investment teams on ESG (including climate risk) integration into the investment process, with the advancement of data, tools and frameworks. The SIP team further provides subject-matter expertise to the Group to support the assessment of climate-related issues across our fund management activities.
- The SIP team partners with designated '**ESG Ambassadors**', including representation for each investment strategy, who help adapt the platform-wide ESG Policy for investing to the specific attributes of each strategy.
- Accountability for our sustainable investing efforts extends throughout our firm, with cross-functional collaboration and support from Risk and Compliance to ensure adherence to ESG and climate-related regulation.
- Where there is ambiguity in relation to specific investment opportunities that require deeper expert guidance and decision-making – such as where climate-related issues for the prospective borrower are a concern – the relevant investment team can escalate the opportunity to the ESG Investment Advisory Council to consider on a case-by-case basis. The Council is chaired by a member of the Management Committee and consists of key business heads – ensuring consideration of the best interests of Clients, Investors and the Group – and the Head of Sustainable Investing.
- Pemberton has been building the skills of our people with respect to ESG considerations for some time to ensure appropriate awareness and capability. Targeted training and guidance has been deployed for those directly involved in the investment process, for example the deal teams with regard to discussions on our ESG Margin Rachet v3.0, which includes climate targets.
- The SIP, Risk and Compliance teams are responsible for monitoring current and potential environmental legislative changes that could impact the Group and provide formal updates to the ESG Committee on a quarterly basis.

Embedded Sustainable Investing Process



Source: Pemberton Capital Advisors LLP. * Portfolio Management. ** Escalated as required.

2. Strategy

Strategy

Given the scale of our investment activities compared to our operational footprint (i.e. Pemberton's London corporate headquarters and network of 10 offices), our investment portfolio is more relevant from a climate risk and opportunity perspective. Therefore, our climate strategy relates largely to our investment activities.

We are focused on integrating climate risk assessments into our investment decisions, aligning our relevant portfolios with our net zero target, and engaging with portfolio companies to encourage them to improve their ESG profiles, including encouraging borrowers to advance their disclosure and overall approach to mitigating climate risk as we believe this helps protect LP capital.

The TCFD has published guidance for asset managers but does not consider some of the characteristics of private credit firms like Pemberton with portfolios holding unlisted mid-market companies. There are a few nuances for consideration in our asset class[6]. While climate change will impact our underlying portfolio businesses, as a credit provider we are exposed to the extent that climate risk affects the investee entity's ability to repay its debt. During the holding period climate risk would manifest itself by way of default, a change in credit quality (e.g. stressed cashflows), and the viability of further credit arrangements[6].

2.1 Description of climate risks and opportunities

Pemberton funds and our funds' portfolio companies and other investee entities may be subject to certain climate-related short, medium, and long-term risks. For example, businesses with high carbon intensities could face new regulations, or new climate-related policy implemented for a certain sector, while the changing climate itself creates heightened risk for producers in certain industries with supply chains from regions that may face more extreme weather patterns.

These risks can be challenging to quantify, but we are committed to analysing and monitoring these risks as best we can. Due to the nature of the private credit asset class, pertinent information can be difficult to obtain, despite best efforts.

For certain of our funds' portfolio companies and other investments, such climate-related transition and physical risks may include:

- **Physical:** Chronic or acute physical effects of climate change, including extreme weather that could lower asset valuations and ultimately impact fund performance.
- **Policy and legal:** Climate-related policy, regulatory and legal obligations that require more extensive emissions disclosure, or impose carbon taxes or pricing, resulting in increased costs for funds and investments.
- **Market:** Market or business trends that may require expenditures on product or services and supply chain redesigns.
- **Reputational:** Shifting consumer preferences and reduced demand for products that are carbon intensive.
- **Technology:** Transitioning to lower emission technologies could lead to additional costs or result in write-offs and early retirement of existing assets.

[6] While there is no specific guidance for our asset class, the BVCA TCFD Implementation Considerations for Private Equity (October 2022) did provide practical steps for us to consider in preparing this report.

For Pemberton, such risks may include (i) increased costs to comply with ESG regulatory requirements; (ii) greater challenges in navigating differing stakeholder expectations in relation to our firm's action on climate change; (iii) heightened risk around making misleading or inaccurate climate-related statements; and (iii) market trends that could impact investors' decision to invest in our funds.

As credit investors, we have a keen focus on downside risk. However, Pemberton funds and our funds' portfolio companies and other investee entities[7] may also be able to capitalise on certain climate-related short, medium and long-term opportunities. Such opportunities may include:

i. **Energy and resource efficiency:** stronger performance of investments offering products and services aligned to resource efficiency to support decarbonisation efforts.

ii. **Low emission product and services:** growth in AUM and client retention through strategies supporting the transition to a low-carbon economy. Climate-linked financing that reduces the cost of capital for the borrower if they meet specific performance criteria.

iii. **Resilience:** acting now will lead to lower costs than repairing after risk damage has occurred. This includes: stronger performance of investments that prepare for and respond to the consequences of climate change, such as companies addressing supply chains affected by less predictable, and more extreme, weather.

For Pemberton, the opportunity lies in equipping our investment process for better identification of risks to financial returns.

The time horizons over which climate-related risks and opportunities affect our business depend on the specific characteristics of our investment strategies[8], but broadly the investment horizons we consider within private credit are:

Short term (0–3 years) related to the assumed asset life of an individual investment, with the average term of refinancing at three years. Climate risk during this time frame can be translated to stressed cashflows and the portfolio company's ability to service its debt. Assessing the potential financial impact of climate risk during the pre-investment due diligence phase can serve as a useful tool to understand the potential exposures that may exist, although there are currently data availability limitations.

Medium term (3–8 years) related to the legal maturity of an individual asset of 7 years, and the average length of a fund's life (8 years from final close). A medium-term lens helps to assess future credit risks related to climate factors, including the viability of further credit arrangements. On the opportunity side investee companies or sector exposure to positive climate-related regulatory tailwinds may have better performance and growth expectations.

Our **longer-term horizon is >8 years** in relation to the Group as a whole and the shape and nature of our business and strategy, including the emissions we are financing and our net zero journey. We can best future proof our firm by continually assessing the needs of our clients in relation to their climate commitments, as well as diversifying their exposure to climate risks.

We will continue to deepen our understanding of the financial impact and resilience of Pemberton's investment within the lens of our time horizons.

TCFD Risks and Opportunities

[7]Depending on the private credit investment strategy, "investee entity" may be a corporate borrower (direct lending), or the relevant fund owing it or private equity sponsor controlling it (NAV Finance) or a financial institution counterparty (risk sharing investment-RSS).
[8]For example, in Working Capital Finance (WCF) the average tenor of a loan is below 1 year.

2.2 Impact of climate risks and opportunities on business, strategy and financial planning

The potential impacts are primarily related to our investment process. Integrating material climate-related risks and opportunities into the evaluation of prospective borrowers does not mean that this is the sole or primary consideration for an investment decision. However, by increasing and diversifying the information available to our deal teams and portfolio managers, we can gain a more holistic view of an investment and related repayment risks, which we believe makes us better investors and ultimately benefits our clients.

Investment assessment: Climate-related factors are assessed when relevant to the risk-return profile of a proposed investment. Within private credit, due to the difficulty of divesting and the capped upside post-investment, it is particularly important to identify and manage the downside ex-ante. Our investment teams therefore focus acutely on the sensitivity of a company's cashflows to sudden damage that could arise, including material ESG risks.

Preparation of this report focused our efforts on improving firm-wide practice and consistency on climate risk assessment. We recently developed a new diagnostic tool to help us better assess the climate risk in our lending, providing a snapshot of a company's physical and transition risks. We have begun working with our investment teams to integrate this new diagnostic tool into our due diligence process for direct lending.

Going forward, the climate diagnostic tool will be embedded within our ESG screening checklists, and the result of the assessment will be recorded in papers submitted to the Investment Committee. Where investment opportunities are identified as having a higher potential exposure to climate-related risks, these will be in focus for take-up of the ESG Margin Ratchet (including climate KPIs), as well as for targeted engagement during portfolio monitoring.

In terms of opportunities, sustainability tailwinds – particularly environmental policies – can also strengthen the investment case. As many of the solutions to address climate change are already economically viable, mid-market companies can help accelerate progress. Our lending can provide much needed capital to scale climate solutions such as clean energy.

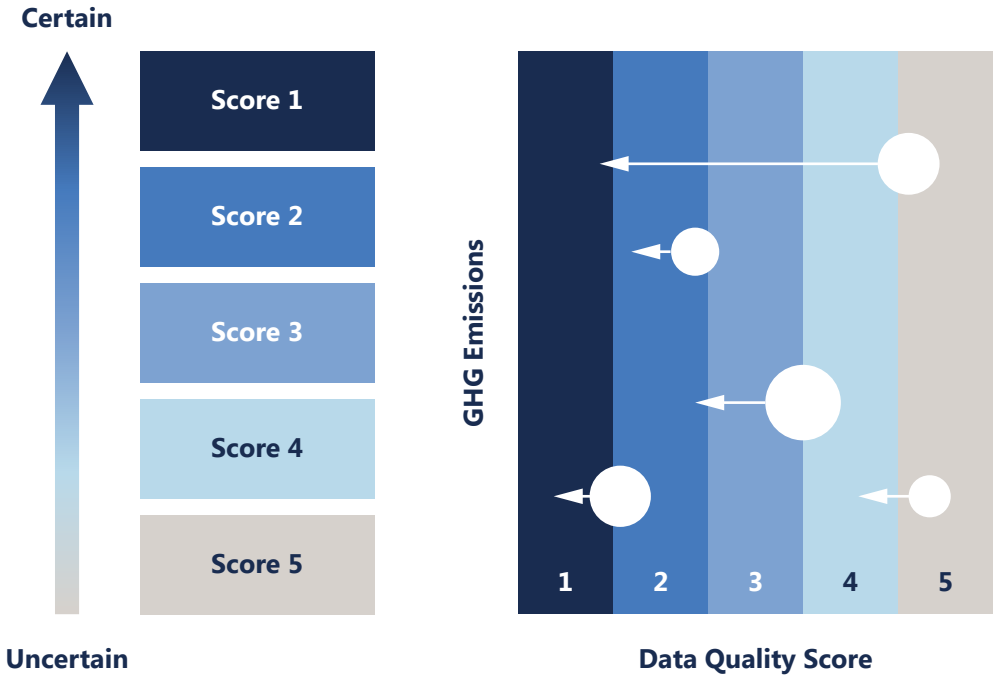
The climate diagnostic tool has 3 inputs:

1. Pemberton's coverage is mapped to the IIGCC Net Zero High Impact Sectors[9] to identify those that have potentially high emissions.
2. These sectors are further mapped to three climate risk categories – physical, transition and regulatory risk – as categorised by the SASB Standards Climate Risk Technical Bulletin[10].
3. Pre-investment data capture of Scope 1, 2 and 3 emissions or, in instances where there is no self-reported data, activity input by prospective borrower to calculate its carbon footprint to minimum PCAF Score 4 (see chart on the next page for data quality scoring).

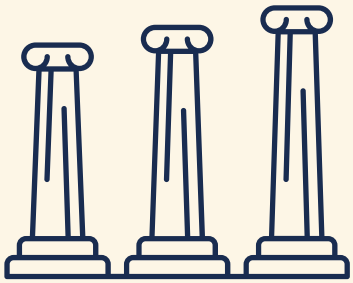
[9]IICC Net Zero Investment Framework, Implementation Guide, March 2021
[10]https://sasb.ifrs.org/wp-content/uploads/2023/11/SASB-Climate-Risk-Technical-Bulletin-2023-0823.pdf

Financed Emissions: The Global GHG Accounting and Reporting Standard, PCAF

Data quality scoring from 1 to 5 enables financial institutions to develop a strategy to improve data over time



Source: Partnership for Carbon Accounting Financials (PCAF) December 2022.



Our climate strategy is built around 3 pillars:

1. Integrating climate considerations in the investment process, as appropriate, to identify, assess, and manage material climate-related risks and opportunities.
2. Investing in energy transition companies that are supported by environmental regulation and policy tailwinds in the transition to a clean energy future.
3. Encouraging and supporting our portfolio companies in measuring their carbon emissions and implementing business-relevant decarbonisation, where appropriate.

Case study

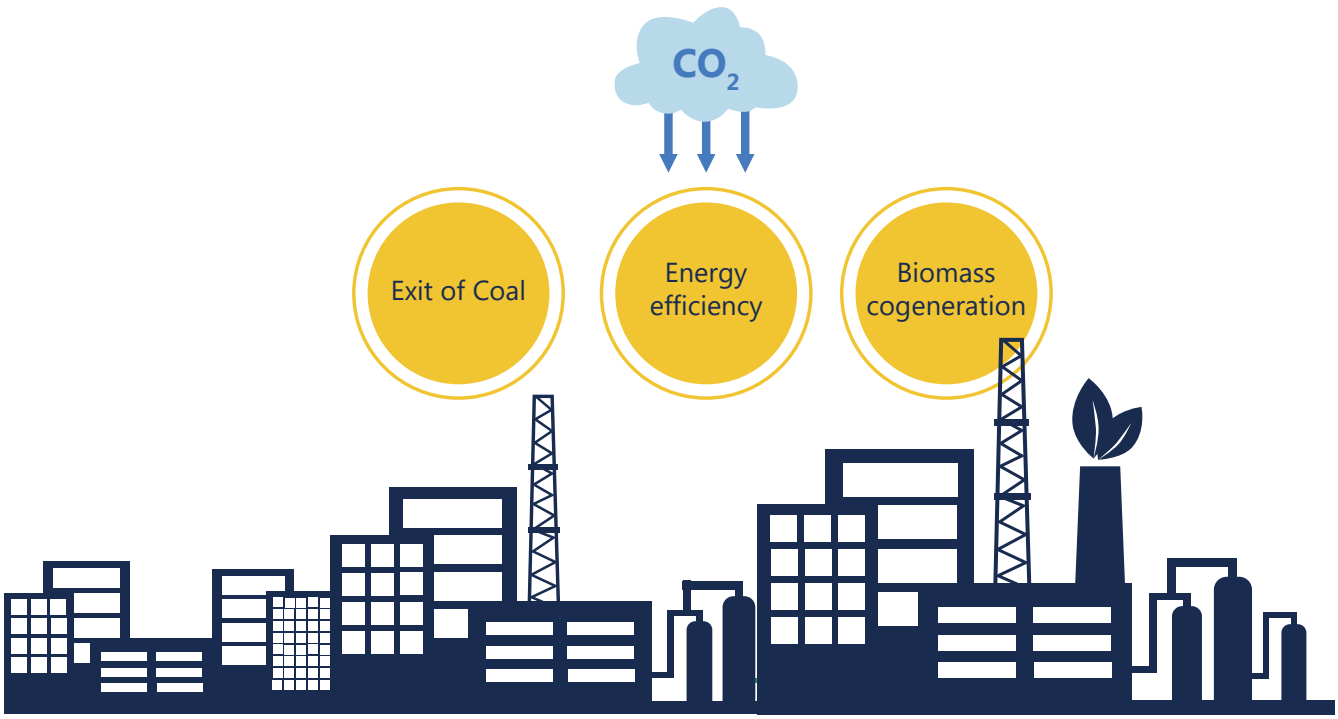
Climate related risks and opportunities

Project Carbon Footprint

An important lever in our asset class to incentivise progress on sustainability performance is the use of ESG-linked margin ratchets, which reduce the loan interest margin if the borrower delivers against predefined targets.

For a European manufacturer of mineral additives, we developed a bespoke ratchet to certify real world carbon emissions reduction. In this instance, a two-way ratchet was introduced which increases the margin in case no action is taken by the borrower and reduces the margins if targets are met. This portfolio company has delivered year-on-year carbon reduction that has outperformed its own projected pathway to reduce emissions.

Decrease in CO_2 Emissions



Source: Pemberton Capital Advisors LLP. As of December 2023, this portfolio company has repaid its debt.

Portfolio assessment: Our portfolio carbon footprint analysis consists of Scope 1 and 2 emissions[11]. Since Scope 1 emissions come from the operations of a company, these are in large part determined by the activities or sector of companies. Scope 1 emissions are therefore largely driven by the sector weight of the portfolio.

Assessing Pemberton's Direct Lending Portfolio for FY2023:

- 76% of assets (up from 62% in 2022) self-declared carbon data, of which 22% provided evidence of third-party certification.
- For the remaining 24% of direct lending assets, carbon emissions were estimated using activity-based information inputted[12] by the portfolio company to calculate its carbon footprint.

From analysis of this data, we have identified that 11% of Pemberton's invested capital contributes to 74% of the portfolio carbon footprint (Scope 1+2)[13].

The main sectors[14] that contribute to these emissions are:

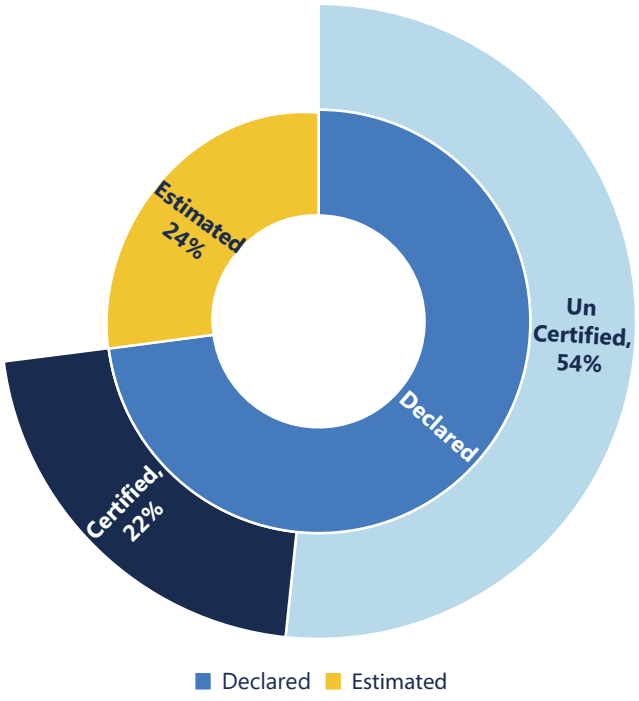
1. Construction and Building Materials
2. Capital Goods and Industrials

The UK FCA guidance recommends that where the product has 'concentrated or high exposures to carbon-intensive sectors' (not defined by TCFD, see Carbon Risk Diagnostic tool for Pemberton's 'high impact sectors' categorisation), analysis should be undertaken against the scenarios outlined in section 2.3.

As an initial step, we undertook an assessment for these two sectors utilising the Climate Financial Risk Forum ('CFRF') Climate Narrative Tool[15], with impacts for the Construction sector summarised on the chart on page 23.

Carbon footprint metrics at the portfolio level provide an indicator of sector risk, as well as potential policy risk.

Carbon Emissions Disclosure (Scope 1+2)



Based on committed capital as of 31st December 2023.

[11]Since Scope 2 emissions come from the purchase of electricity by companies, this will in large part be determined by the carbon intensity of the electricity grid of the company's operating region.
[12]Using our PCAF-accredited, third-party, carbon platform.
[13]Our focus in this analysis is on self-declared data, as estimated data – while broadening the coverage - has introduced an outlier that significantly skews the analysis (i.e., additional risk that the data is not fully accurate). This does not change the sectors identified.
[14]Sectors reference is specific to Pemberton's Direct Lending strategy.
[15]The CFRF tool provides sector level reports including quantitative and qualitative analysis of the climate risks and opportunities they face. The CFRF leverages pre-existing data sets from the NGFS (reference 2.3 for the Network for Greening the Financial System framework and scenarios).

2.3 Assessing the resilience of assets (climate scenario analysis)

In terms of the resiliency of our business strategy and financial planning to the physical and transition risks and opportunities posed by climate change, at a group level we do not believe we are directly impacted by climate-related risks. Our business model as an asset manager is driven by fee income from our clients for managing our funds and strategies. As such, Pemberton's business will be adversely impacted by poor performance in our fund management activity.

When assessing the resiliency of our clients' portfolios, TCFD has recommended scenario analysis to be used as a tool to enhance strategic thinking with the intention of exploring alternatives that may significantly alter the base for "business-as-usual" assumptions. This is important because while the factors that drive the transition to a low-carbon economy and the physical impacts of climate change are fairly well understood, the way these factors will play out over time, at what speed and scale, and society's response are less certain.

For this purpose, we consider risks under scenarios offered by the NGFS (Network for Greening the Financial System) framework that provides seven scenarios under an orderly transition, disorderly transition, and a hot house world[16].

1. 'Orderly transition' – assume climate policies are introduced early and become gradually more stringent, reaching global net-zero carbon dioxide (CO_2) emissions around 2050 and likely limiting global warming to below 2°C on pre-industrial averages.

2. 'Disorderly transition' – assume climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost and with increased physical risks in order to limit temperature rise to below 2°C on pre-industrial averages.

3. 'Hot house world' – assume only currently implemented policies are preserved, current commitments are not met and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

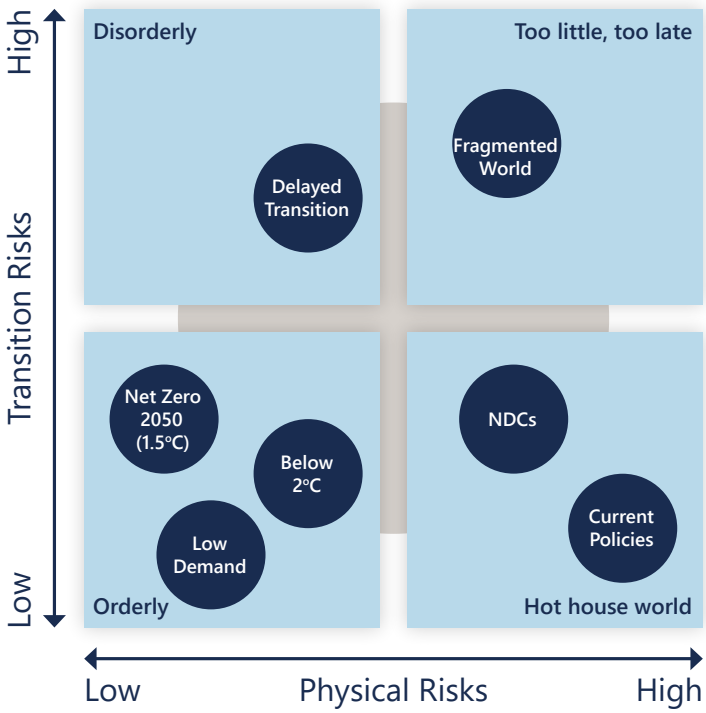
[16]The Network for Greening the Financial System (NGFS) is a network of 114 central banks and financial supervisors that aims to accelerate the scaling up of green finance and develop recommendations for central banks' role for climate change. https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_scenario_analysis_final.pdf

Analysis of NGFS Scenarios for the Construction Sector

Scenario	Summary (condensed)	Transition Details
1 **Orderly** (Low physical risk, Low transition risk)	In orderly transition scenarios, construction demand is expected to rise due to population growth, despite potential GDP growth reductions. However, changing energy generation patterns driven by policy, societal shifts, and carbon legislation may lead to immediate CO_2 emission reductions and increased carbon prices. This could impact construction profitability as the sector emits carbon mainly through electricity and material production. The Global Alliance for Buildings and Construction reports that in 2021, the sector accounted for over 34% of global energy demand.	The changes in carbon pricing, societal preference, energy prices and energy mix could potentially result in one or more of the following financial impacts: • **Reduced revenues.** Negative public sentiment around sustainability and climate change issues could affect all the value chain players leading to reduced demand for products/services. • **Increased costs** from paying a price on carbon emissions directly or indirectly through expensive conventional building material or non-renewable energy for its operations. • **Increased capital expenditures** New investments could be required to improve the energy efficiency of the construction process including but not limited to using fewer or different materials, employing different production techniques, using lower emission transportation, optimizing transportation routes, planning fewer journeys, minimising the use of non-renewable grid energy and recycling. • **Increased R&D investment** could be needed to explore alternative construction processes and materials to improve emission intensity. • **Falling asset values.** Impairment of the economic value of company assets such as outdated machinery and material transportation vehicles with poor energy efficiency.
2 **Disorderly** (Low physical risk, High transition risk)	In disorderly transition scenarios, construction demand may rise despite potential GDP growth reductions. However, late policy action in delayed transition scenarios could lead to a temporary increase in CO_2 emissions followed by rapid reduction, impacting construction profitability.	
3 **Hot house world** (High physical risk, Low transition risk)	The construction sector faces significant exposure to the physical impacts of climate change, including both chronic effects like rising sea levels and acute effects such as extreme weather events. While the industry is accustomed to managing changing weather conditions, high-risk scenarios of global warming could exacerbate these challenges, leading to increased damages to buildings and disruptions to construction processes, potentially decreasing industry profitability. Adverse impacts on global GDP from these physical risks are anticipated, varying with projected temperatures for each scenario, which could further dampen demand for construction.	**High physical impacts** could include: **Chronic Impacts** • Rising sea levels could cause disruption to the construction process and can also lead to reduced demand in particular markets and locations such as coastal areas. **Acute Impacts** • Heatwaves can stop work on construction projects for health and safety reasons while also potentially compromising the structural integrity of the materials, causing machinery malfunctions, and increasing fire risk. In the Net Zero 2050 and delayed transition scenarios, mean air temperatures, as well as mean daily minimum and maximum air temperatures, are projected to increase. • High winds and storms are known to be a risk to construction. Cyclones are likely becoming more intense leading to construction timelines getting extended or disrupted. • Heavy precipitation and flooding can cause significant damage to project sites.

Source: CFRD Climate Narrative Tool - Construction.

NGFS Scenarios Framework



Source: NGFS Climate Scenarios (November 2023).

Pemberton strives to further understand, to the extent possible, how such scenarios can impact the resilience of our investments (e.g. the credit risk of defaults by businesses, asset allocation to specific sectors) and, where material, to integrate takeaways into our investment process.

As a pragmatic initial step, we have undertaken analysis of:

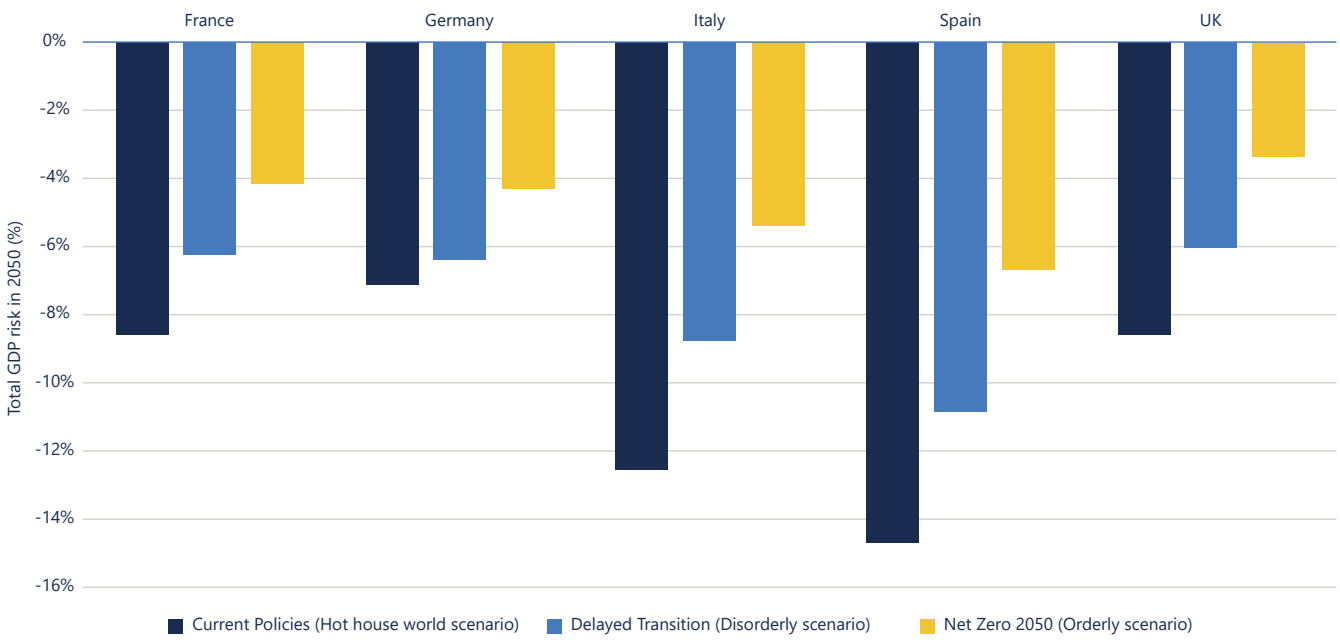
Bottom-up analysis of 'High Impact' sectors as outlined on page 23 (Construction chart) using the CSRF Climate Narrative Tool.

Top-down impact of NGFS model predictions for real GDP for each country in which our borrowers are located, alongside scenarios.

(At this time, we are unable to identify exposure to supply chain risk, e.g. China due to information availability.)

Physical risks lead to strong negative impacts on GDP in scenarios in the 'hot house world', with Southern Europe most impacted by changing weather patterns as illustrated in the chart on page 25.

Top-down impact of NGFS model predictions for real GDP for each country and scenario



Source: NGFS (2023).

Note: The NGFS scenarios illustrate that an immediate coordinated transition will be less costly than inaction or a disorderly transition in the longer term. As of the 2023 modelling, orderly scenarios are now more disorderly, reflecting climate policy delays and recent developments in energy markets in the current geopolitical context.

As investors we recognise that we must monitor government responses to climate risks in the form of regulation, carbon taxes, and public investment. Transition risk and opportunities to the low-carbon economy are expected to manifest in the short, medium and long-term, and we must ensure we are equipped to respond to these. With a European investment focus, Pemberton portfolio assets are exposed to increasing regulatory requirements that we expect to result in policy and market impacts for some sectors in the short-medium term.

Over the long-term, we expect these trends to also offer opportunities to finance the climate transition.

We are at the early stage of understanding climate scenario analysis. We must continue to assess and adjust our strategy with a view to meeting changing client demand and shifting market and industry dynamics. Our approach to scenario analysis will evolve going forward to further incorporate expectations of clients, regulators and best practice. In relation to capitalising on value creation opportunities, it can be expected that over time outputs from the scenario analysis will inform a gradual alignment of portfolios towards industries (and possibly countries) projected to benefit from climate change and away from those adversely impacted.

3. Risk Management

Identifying, assessing, managing climate related risks

Pemberton's Risk team has integrated sustainability within its existing risk management framework. The Group has comprehensive risk governance and compliance processes and procedures to ensure that all risks, including ESG and climate-related risks, are identified, managed and monitored and that the Group is in compliance with all applicable legislation.

Carbon accounting is an integral part of our assessment of the potential size and scope of identified climate-related risks, enabling us to measure and understand emissions in our portfolios as well as the sources and scale of our own operational emissions in order to identify areas of potential regulatory and operational risk for Pemberton and our investments.

Overall, we see Pemberton's exposure to climate-related risks as predominantly via the financial assets we manage on behalf of our clients; our operational footprint (i.e. corporate offices and purchased goods and services primarily related to business services) offers a level of agility in Pemberton's 160+ professionals shifting to remote working.

3.1 Identifying carbon risks

Portfolio investments

Our risk management framework is based on a 'three lines of defence' framework, which covers financial and non-financial risks, including climate-related risks.

First Line
Investment teams

First line of defence: Pemberton's Investment teams, including the Origination teams, are responsible for identifying the specific sustainability (environmental, social and governance) risks arising out of the investment opportunities, including climate-related risks, supported by the Sustainable Investing Process Team ("**SIP Team**") and, when applicable, the ESG Investment Advisory Council.

Second Line
Independent oversight and control functions

Second line of defence: Pemberton's Risk and Compliance teams provide oversight of policies and processes, including the implementation of sustainability risk-related policies and processes. In addition, the Risk team monitors portfolio investment guidelines and investment restrictions and takes appropriate action where needed and reports any overruns to the Group Risk and Compliance Committee, which in turn reports to the relevant Board either PCA or PAMSA.

Third Line
Internal audit

Third line of defence: Pemberton's Internal Audit team acts in a third line defence capacity and includes sustainability risk in its audit planning and supervision.

During 2023 we further developed our corporate level risk management framework to consider sustainability risk in a more systematic way, enhancing the role of the second line of defence in providing independent oversight and challenge to our approach to corporate sustainability.

Tools and metrics: carbon data

Risk management is a cornerstone of Pemberton's investment philosophy and this is built on rigorous in-depth analysis at the company level. This process in turn requires access to quality, reliable information and data that we can track over time.

Climate transition risks are primarily measured in relation to our carbon exposures, so that the more carbon emissions data we can capture the stronger our analysis will be. At the same time, private market investors like Pemberton are increasingly called upon to set ambitious climate commitments that require consistent and comparable climate metrics.

Like any other fundamental variable – carbon intensity can help us better assess an investment's risk-adjusted return potential.

Yet investors seeking to manage risk related to ESG factors have long faced a significant challenge: incomplete data sets. This hurdle is amplified in private markets, with ESG reporting for our unlisted mid-market companies at a nascent stage relative to public investing and listed companies. The challenge for private mid-market companies lies in financial constraints, lack of available expertise, as well as no legal obligation to report. We are seeing advancement among our coverage, as highlighted in section 3.1 below, and – with a European borrower base – Pemberton will benefit from the EU Corporate Sustainability Disclosure Directive (CSRD) that broadens the scope of mandatory disclosure of ESG metrics and data, including those related to climate risk, to some of our portfolio companies[17].

Our ideal preference is to use reported emissions data calculated in line with the GHG Protocol and collected from a verified third-party data provider. However, even when private companies report, comparison can be hampered as they often use different methodologies in their assessment. For example, what firms include in their calculations of Scope 1, 2, or 3 emissions can differ even among businesses in the same industry.

When we do not have easy access to reported carbon data, we must use estimated data approximations from two sources: (a) either from activity-based inputs provided by portfolio companies on our third-party partner carbon platform or (b) where companies do not input to the carbon platform, we use estimated data provided by an expert carbon consultancy we engaged in 2023 to undertake a carbon footprint exercise on Pemberton's entire direct lending portfolio.

One of the main areas of focus for Pemberton in the last couple of years has been improving the quality and coverage of emissions data so that we better assess risk related to carbon intensity. In addition to the top-down carbon footprint exercise, during 2023 we moved to an accredited PCAF[18] partner platform to capture carbon data from portfolio companies, both reported and estimated activity-based calculations. On the latter, this platform-facilitated calculation supports capability-building for portfolio companies by helping them collect and interpret emissions data, as a baseline to begin their journey on disclosure of emissions data.

With this progress, on a go-forward basis and working off a 2023 data baseline, we can also incorporate carbon footprint analysis of our direct lending portfolio in our ESG reporting to clients, including key metrics (e.g. Weighted Average Carbon Intensity, Total Carbon Emissions or Carbon Footprint) recommended by TCFD (as illustrated in section 4).

[17]CSRD is being phased in gradually depending on company size, revenue and location. European mid-market private companies that meet two of the following criteria: 250+ employees, €50m+ net turnover, €25m+ total assets must comply with the CSRD in 2025, reporting in 2026.
[18]The Partnership for Carbon Accounting Financials (PCAF) has set the global standard for measuring and disclosing financed emissions.

Group Operations

We work to actively assess and monitor potential business disruption risk events to strengthen our operational infrastructure. Climate Risk is part of the Operational Resilience Policy cover and the BCP/ Emergency plan. As an office-based company, our physical footprint is relatively small. We consider that the Group's direct operations are not materially exposed to climate risk (physical), because our employees can work remotely for business continuity, and our supply chain is primarily procurement of business services.

As it relates to the firm's corporate operations' impact on the climate, the 20,000 sq. ft leased space in the building in which we moved our London headquarters to in April 2023 has a BREEAM certified[19] rating of 'Excellent', with facilities that includes ground source heat pumps, solar panels, and a green living wall.

We will continue to measure and reduce our carbon footprint by assessing the current sustainability practices of our offices and taking appropriate action. The table below presents Pemberton's emissions data from our business operations.

GHG Emissions[19]	Category	FY23	FY22	FY21	FY20	FY19
Direct Emissions (Scope 1)	Combustion of fuel and operation of facilities	49	43	82	74	23
Indirect Emissions (Scope 2)	Purchased electricity/ heat (location-based)	52	30	24	16	12
	Purchased electricity/ heat (market-based)	-	-	-	-	-
	Total Scope 1 and 2	**101**	**72**	**106**	**90**	**36**
Indirect Emissions (Scope 3)	Business travel (flights, rail, vehicles, taxis,[20] hotels)	1,505	1,420	115	203	582
	Home working & Commuting	219	130	105	83	0
	Hotel stays					29
	WTT & T&D		23	39	40	88
	Waste incl. Water	26	4	2	2	1
	Postage	0	0	0	0	0
	New Scope 3 categories for FY23					
	Purchased Goods and Services[21]	9,582				
	Fuel and energy related activities	23				
	Total Scope 3	**11,355**	**1,577**	**261**	**328**	**701**
	Total Gross Emissions	**11,456**	**1,649**	**367**	**418**	**736**

Source: Pemberton Capital Advisors LLP.

[19]Numbers in table have been rounded up or down to the nearest metric ton of CO_2e.
[20]With the COVID-19 pandemic from mid-2020 through early 2021 many of our offices saw limited operational capacity or were closed completely due to COVID-19. Employee business travel and employee commuting to and from offices were also constrained.
[21]2023 was the first year that Purchased Goods and services (PG&S) and fuel and energy related activities were calculated for Pemberton.

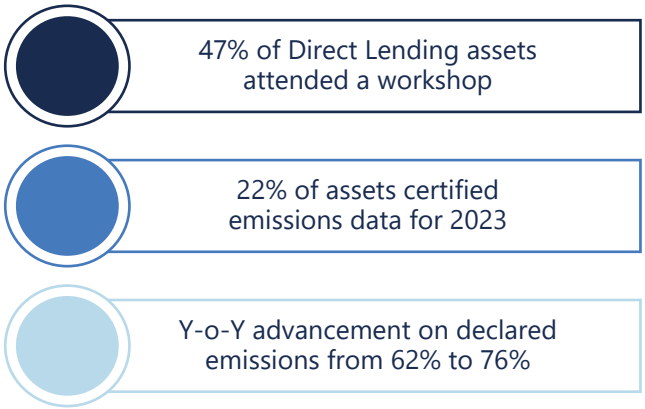
3.2 Managing climate-related risks

Our risk management approach recognises the importance of engagement with investee companies to assess performance and material risks in real-time. Pemberton strives to exercise influence and pursue stewardship responsibilities to the extent possible for an investor in private credit. Where Pemberton does have the necessary level of influence, specifically as the lead or sole lender to companies in its direct lending strategies, there are a number of ways that the firm helps businesses focus on ESG issues and drive improvement.

Carbon Workshops: A key focus of 2023 was climate-focused education and upskilling for portfolio companies. During FY2023, as part of an ongoing series, we held three Carbon Workshops for direct portfolio companies, with 47%[22] of all assets attending at least one of these workshops – which included external expert speakers – at which we shared practical steps and guidance on carbon footprint measurement, reporting and climate action strategy.

Pemberton's ESG Margin Rachet: Offered to all direct lending assets, this mechanism incentivises performance improvement as the loan interest margin is reduced if the borrower delivers against predefined sustainability targets. The ratchet serves as an important engagement lever that can lead to detailed discussion with the private equity (PE) sponsor and the prospective borrower to identify sector-appropriate areas for improvement and target setting. As of January 2024, all v3.0 ratchets include a carbon reduction target in line with the SBTi[23] guidance for SMEs, as well as a bonus ratchet for alignment to net zero milestones.

2023 Carbon Workshop Statistics



Note: Based on Direct Lending AUM as of 31st December 2023.
See section 2.2 Portfolio assessment for further details on this data.
Source: Pemberton Capital Advisors LLP.

Annual ESG Borrower Questionnaire: Climate change is an integral part of our annual ESG Borrower Questionnaire which monitors governance, social factors, and an environmental pillar covering management of climate change together with decarbonisation plans and targets. We publish summary results of our proprietary ESG rating in our annual Sustainable Investing Report, which includes a carbon score.

[22]Based on committed values, and calculated where assets were invited to all carbon workshops.
[23]Science Based Target initiative (SBTi).

Industry Collaboration

As noted, a challenge for investors is inconsistency in relation to comparable climate-related data, and this is amplified in private markets, so collaboration is needed. Hence, an important pillar of our activity is to engage with industry groups for knowledge-sharing and to explore best practice, decarbonisation tools, and net zero measurement frameworks for our asset class.

We are a member of:

The Initiative Climate International

The Initiative Climate International (iCI) is a global, practitioner-led community of private markets investors that seek to better understand and manage the risks associated with climate change. The iCI counts globally over 250 members; representing USD4.1 trillion as of the end of August 2023.

Pemberton involvement

We collaborate on the Private Credit Working Group, with the current focus on carbon data advancement.

The Institutional Investors Group on Climate Change

The Institutional Investors Group on Climate Change (IIGCC) drives supportive investment practices, policies and corporate behaviours to help investors navigate implementation of climate considerations in portfolios, advocate for a more supportive policy environment, and undertake effective stewardship and engagement with companies. IIGCC has more than 400 signatories representing more than €65 trillion in assets under management.

Pemberton involvement

We are members of the Working Group convened in Q4 2023 to develop the Net Zero Investment Framework: Private Debt Guidance for portfolios to be managed in alignment to net zero, published in May 2024.

The UN PRI Private Debt Advisory Committee

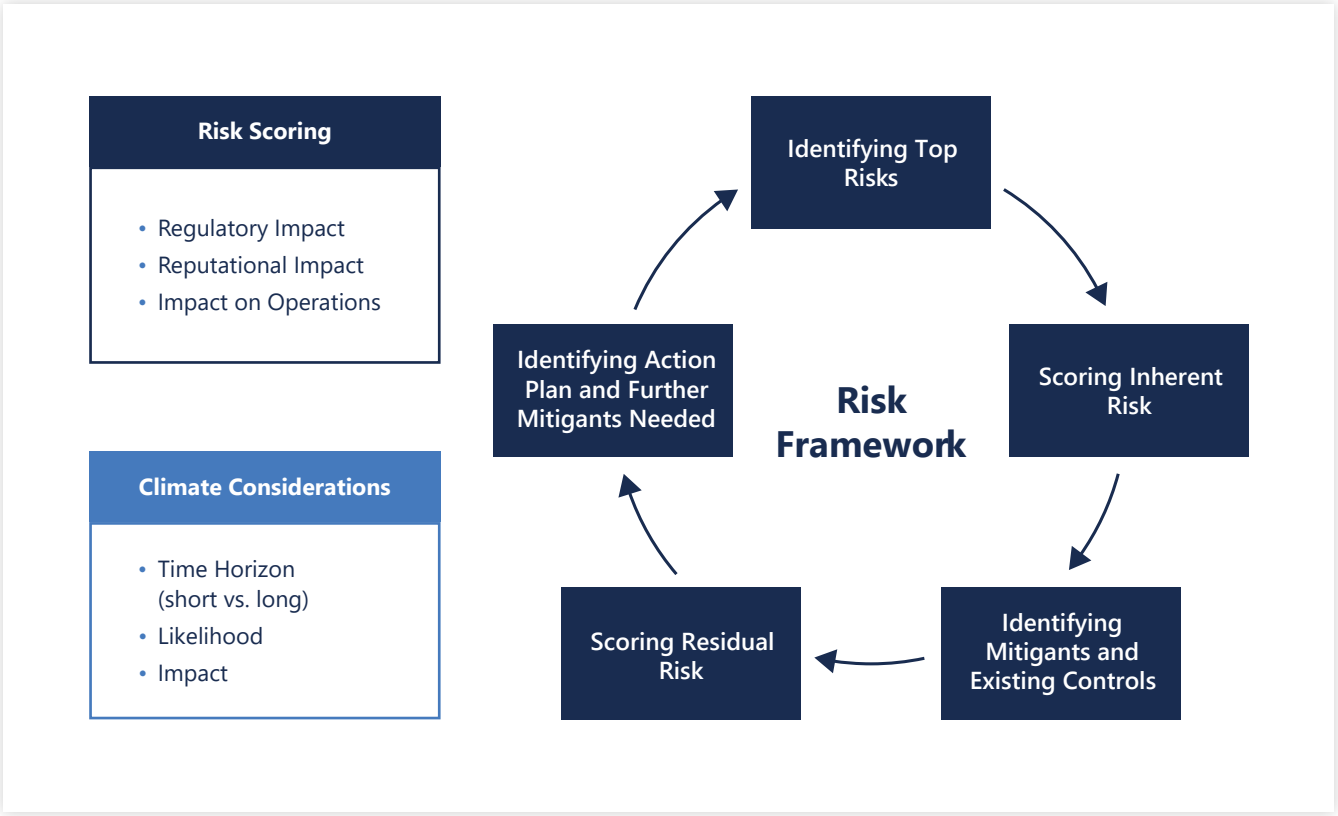
The UN PRI Private Debt Advisory Committee (PDAC) supports the design, delivery and dissemination of sustainable investing guidance for our asset class.

Pemberton involvement

Serving on PDAC includes participation on workstreams to advance knowledge-sharing on best practice in relation to sustainability-linked loans (SLLs) and ESG Margin Ratchets, Stewardship in Private Credit and Net Zero.

3.3 Integration of climate risks into risk management processes

- Risk management is integrated across the Group with a dedicated Risk function that ensures that both current and emerging risks are measured, monitored, and mitigated where possible.
- The Risk function ensures adequate governance frameworks and controls are in place or will be put in place to measure and manage climate-related risks. This includes the development of policies and procedures to provide insight as well as oversight into climate-related risks that impact both the firm and the funds.
- Top risks are identified by combining a top-down assessment and bottom-up analysis. This is a cross-functional initiative coordinated by the risk function but involves all key stakeholders.
- Clear processes for assessing risks are established for each fund and investment strategy. Across our portfolio management approach, we also take account of a high carbon escalation process on a case-by-case basis via the ESG Investment Advisory Council.
- All employees receive training on sustainability as appropriate to their function. Investment teams receive comprehensive guidance so that they are well-positioned to execute effective ESG integration in the investment process.
- Compliance with the policies and procedures, including policies covering the integration of sustainability risks, is considered via a Balanced Scorecard approach as part of total compensation and rewards. The scorecard factors in any late or incomplete training including those related to sustainability, as well as adherence to internal policies and procedures.
- Our monitoring and updating of measurement and management actions to capture climate risks within the risk management framework continues to evolve.



Source: Pemberton Capital Advisors LLP.

4. Metrics and Targets

Metrics and Targets

We seek to align our investments with a pathway towards net zero and ensure consistency with the Paris Agreement ambition.

While a source of insight into the Pemberton's risk exposure and a measure of progress towards our net zero commitment, we note that some of the metrics and tools presented here have inherent limitations as outlined overleaf.

Decarbonising our investment portfolios

Carbon Footprint: Below shows an illustrative sample for Pemberton's investment strategies, specifically direct lending, with metrics linked to the recommendations of the Task Force on Climate-Related Financial Disclosures. We continue to refine and expand our carbon measurement and data reporting. This helps our clients better understand key climate and carbon metrics in their portfolios.

						Coverage[7]		
Metric Type	Metric[1]	Asset Class Covered[2]	Units	Scope[3]	2023 Pemberton Value[4,5,6]	Reported	Estimated	Definition[8]
Financed Emissions	Total GHG Emissions	Direct Lending Corporates	tCO_2eq	Scope 1	207,441	73%	25%	Total absolute GHG emissions for portfolios (scope 1 and 2 emissions). Based on enterprise value including cash (EVIC).
			tCO_2eq	Scope 2	104,083	75%	25%	
			tCO_2eq	Scope 1 + 2	311,525	73%	25%	
	Total Carbon Footprint	Direct Lending Corporates	tCO_2eq / $m invested	Scope 1 + 2	34	73%	25%	Total GHG emissions for a portfolio normalized by the market value of the corporates in the portfolio with Scope 1+2 GHG emissions data, expressed in tons CO_2e/$M invested. Based on enterprise value including cash (EVIC)
	WACI	Direct Lending Corporates	tCO_2eq / $m sales	Scope 1 + 2	52	73%	25%	Portfolios' exposure to carbon-intensive companies (Scope 1 absolute emissions + Scope 2 absolute greenhouse gas emissions)/ issuer's revenues in $M (weighted based on Market Value)

[1]Each of these metrics will be subject to volatility, including from market movements, so we do not expect related metric data to take a linear pathway going forwards.
[2]Corporates refer to SMEs held in Pemberton's Direct Lending strategy.
[3]Scope 2 calculated using Market based approach used.
[4]Pemberton currently has no relevant benchmarks for data comparison.
[5]No historical data, as 2023 was the year data capture/quality enabled these TCFD recommended calculations.
[6]Pemberton's value based on accounts as of 31st December 2023, subject to data availability.
[7]Coverage metrics represent the share of assets with emissions data as a % of the corporate market value of commitments. Where assets have not disclosed their most recent data, estimates were used.
[8]Definitions and formulas utilised from TCFD Guidance 2021.

Sector Risk:

- **Fossil Fuels:** Pemberton currently have no material exposure to high-risk climate sectors such as fossil fuels[24], and commits to track and disclose any exposure to these sectors going forward.
- **Heightened Risk for Material Holdings**: We have identified that Construction & Building Materials and Capital Goods & Industrials are the sectors with heighted risk for exposure to climate risk and these are prioritised for engagement and scenario analysis.

NZAM Target: Pemberton is a member of the NZAM (Net Zero Asset Managers) initiative, and during 2023 we set an interim target for 40% of our direct lending assets to be managed in line with net zero by 2030, while over the long-term horizon (>8 years) extending a methodology to our other strategies with a goal of reaching 100% of alignment of all assets with net zero by 2050.

The Institutional Investor Group on Climate Change (IIGCC) developed a Net Zero Investment Framework (NZIF) for private credit managers that recommends specific actions and criteria to align portfolios towards net zero. The NZIF 1.0 Private Debt guidance was published in May 2024, and going forward we will report progress against these milestones and engagement (outlined below) commitments.

Pemberton's Head of Sustainable Investing and a senior member of our Origination team served on an IIGCC Working Group that developed this NZIF framework.

Asset level metrics:

Portfolio Monitoring: A carbon score is applied for each asset in direct lending, which forms part of Pemberton's proprietary ESG rating. This enables us to track and report to clients on year-on-year advancement on carbon disclosure by portfolio companies, as well as where they have achieved emissions reduction (absolute). We will continue to track and evolve this metric.

Embedding in Investment Due Diligence: Our new climate risk diagnostic tool (section 2.2) will enable enhanced assessment of climate-related risks (both physical and transition) at the investment stage for prospective borrowers.

Sustainability-linked Financing: As we continue to roll out Pemberton's ESG Margin Ratchet v3.0, launched in January 2024, we expect to report to clients on portfolio assets' achievement against pre-agreed carbon reduction targets.

Engagement: As part of our NZAM membership, we have committed to complete engagement actions for all (100%) of applicable direct lending investments[25] within the 2030 timeframe, in order to meet our interim target. We will track and report on this engagement activity.

Areas under development and limitations

As outlined in this report, good progress has been made but we recognise that the way we address TCFD recommendations can be further enhanced by:

- Continuing to monitor progress against the Group's net zero commitment.
- Further embedding climate-related risk and opportunities in due diligence, where information is available.
- Advancing the integration of climate change into our existing risk management protocols; the risk function will then proceed to evaluate, address, and oversee climate risks and the policies and processes to manage these risks within the overall risk framework.

With regard to this report, we note the following limitations:

- The uncertain nature of the risks from climate change, and the lack of historical data, makes quantifying the risks more difficult than other areas of our risk profile.
- The coverage of carbon emissions (especially for Scope 3) remains the biggest challenge when calculating carbon performance metrics such as Weighted Average Carbon Intensity, Total Carbon Emissions or Carbon Footprint. We are using both reported and estimated emissions.
- Comparison over time, and between investee entities, is hampered by significant limitations on the types and sources of data, the methodology to calculate these emissions, incompleteness of data sets, and heterogeneity of practices.
- The issue of data quality is amplified in private markets where there is currently no mandatory reporting obligation.

[24]None aside from a limited exposure in Working Capital Finance (WCF) to short-term receivables arising from oil, oil services and metallurgical coal supply contracts, representing <1% of overall AUM for Pemberton as of 31 December, 2023.
[25]Relevant engagements are defined by the relevant 'influence' bands in the NZIF 1.0 Private Debt Guidance. The 2030 target of 40% and related engagement threshold is based on the assumption that Pemberton is the sole or lead lender, with influence on portfolio companies to align with net zero milestones. If that is not the case (e.g. minority holder of the debt tranche), the target threshold would be expected to be lower.

Glossary

This glossary lists key terms used in this report and aims to provide transparency and clarity on our interpretations and definitions. Where applicable, we aim to incorporate relevant third-party frameworks and standards into our definitions.

Carbon Neutrality: Carbon neutral means that any greenhouse gas (GHG) emissions derived from a defined scope of the company's activities are balanced by an equivalent amount being removed, including using offsets.

Climate risk is evaluated through two lenses:

- **Transition risk:** the risk that asset values may decline because of changes in climate policies, or changes in the underlying economy due to decarbonisation. These risks emerge from policy, legal, technology, and market changes as the economy shifts towards using less carbon.

  Examples: Carbon regulation (e.g. tax or cap and trade systems) • Energy-related technology changes (e.g. rise of low-carbon sources of energy such as renewables) • Shifting customer preferences • Liability (e.g. litigation against companies due to a lack of action)

- **Physical risk:** the risk to properties, collateral, or investments due to specific climate-related weather events and longer-term shifts in the climate. Physical risk has the potential to reduce the financial value of assets. Risks related to the physical impacts of climate change include acute risks and chronic risks.

  Examples: • Acute physical risks (e.g. increased severity of extreme weather events, such as cyclones and floods) • Chronic physical risks (e.g. changes in precipitation patterns and extreme variability in weather patterns, rising mean temperatures and sea levels) • Air pollution • Water stress • Forest and land degradation.

Materiality: Defines ESG issues that have — or have the potential to have — a substantial impact on an organisation's ability to create or preserve economic value.

Net Zero: Achieving an equal balance between GHG emissions produced and GHG emissions removed from the atmosphere.

Paris Agreement: The Paris Agreement, adopted within the UNFCCC[26] in December 2015, commits participating countries to limit global temperature rise to well-below 2°C above preindustrial levels and pursue efforts to limit warming to 1.5°C, adapt to changes already occurring, and regularly increase efforts over time.

Partnership for Carbon Accounting Financials (PCAF): An industry-led initiative enabling financial institutions to measure and disclose greenhouse gas (GHG) emissions of loans and investments.

Scenario Analysis: A plausible description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces (e.g., rate of technological change). As noted by the UK FCA, "in a world of uncertainty, scenarios are intended to explore alternatives that may significantly alter the basis for 'business-as-usual' assumptions"[27].

Scope 1 Emissions: Direct GHG emissions that occur from sources owned or controlled by the reporting company – i.e. from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 Emissions: Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company.

Scope 3 Emissions: All other indirect GHG emissions (not included in Scope 1 and 2) that occur in the value chain of the reporting company. The 15 Scope 3 GHG Protocol categories consist of:

- Purchased Goods and Services
- Capital Goods
- Fuel and Energy-related Activities (Not included in Scope 1 and 2)
- Upstream Transportation and Distribution
- Waste Generated in Operations
- Business Travel
- Employee Commuting
- Upstream Leased Assets
- Downstream Transportation and Distribution
- Processing of Sold Products
- Use of Sold Products
- End of Life Treatment of Sold Products
- Downstream Leased Assets
- Franchises
- Investments

[26]The United Nations Framework Convention on Climate Change is the UN process for negotiating an agreement to limit dangerous climate change (https://unfccc.int/)
[27]https://www.fca.org.uk/publication/corporate/cfrf-guide-2023-scenario-analysis-guide-asset-managers.pdf

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June 2024