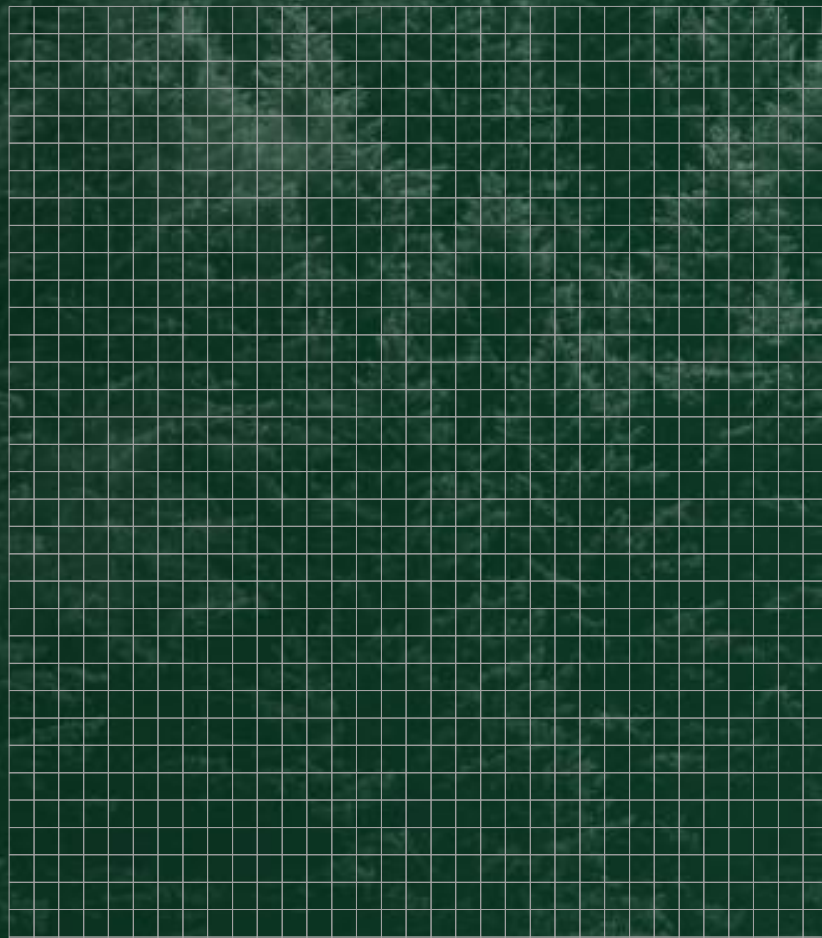


A Commitment to *Responsibility:* ESG at Park Square

A spotlight on the incorporation of ESG into the investment process



A Commitment to *Responsibility*: ESG at Park Square

Park Square Capital has a track record of investing in well-run, sustainable businesses. As credit investors, our primary job is to assess, avoid, and manage risk within the portfolio. Understanding ESG risks, at both the company and fund level, is critical in minimising losses and ensuring strong, long-term returns.

The discussion of ESG factors and capital allocated to the space has doubled since 2015 and is expected to increase even more substantially to 2025, according to PwC (fig. 1). Currently, 9 in 10 private debt LPs include ESG-related considerations as part of manager evaluations and around three quarters of private debt managers claim to take ESG factors into account when making investments. The integration of ESG factors into strategy, policies, and processes is clearly growing in its importance to private markets participants.

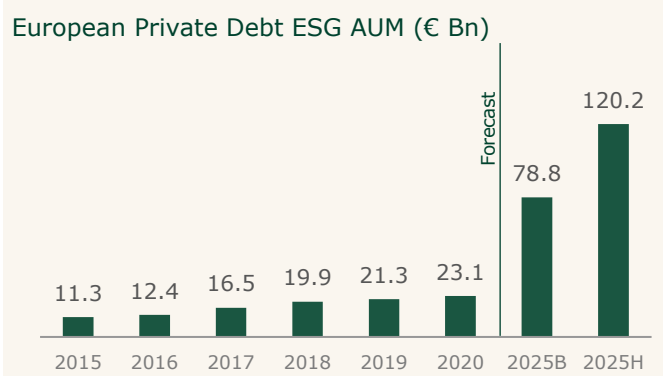


Figure 1: PwC EU Private Markets: ESG Reboots 2022

ESG has been built into the investment culture at Park Square as we believe that ESG issues are business issues that need to be properly evaluated and understood in order to make high quality investments. Although the Firm has considered ESG since inception, as the market, regulation and stakeholder expectations have progressed, so have Park Square’s strategy, policy and processes. As a manager with over \$12 billion under management and a team of over 100 people, we recognise the need to have a formal approach to ESG integration, ensuring that our policy is implemented consistently, and our processes are robust.

“
Park Square believes investing in well-run, sustainable businesses drives outperformance over the long term.
 Robin Doumar
 Managing Partner

In early 2022, Park Square formalised its ESG working group, who have been holding meetings since 2018, into a formal ESG committee led by Partner and Co-Head of Direct Lending, Axel Wehtje. The committee also includes senior leaders from across the business and is supported by a dedicated internal ESG team and a specialist third-party consultant. This committee is responsible for developing and overseeing Park Square’s ESG strategy, which is centred around three pillars:

- Robust ESG Processes
- Transparent Reporting
- Accurate Data

ESG analysis is not an add-on to our financial and legal investment practices and analyses. It is integral to it. From business selection through to exit, ESG analysis is a key feature in our risk analysis.

Park Square’s investment team remain responsible for identifying ESG risks in prospective investments. As the individuals closest to the company, we believe this enhances our assessment. The team are supported by Park Square’s dedicated ESG team, external data and proprietary tools. At the heart of risk identification is the Firm’s four-stage risk assessment tool, developed in collaboration with a third-party consultant.

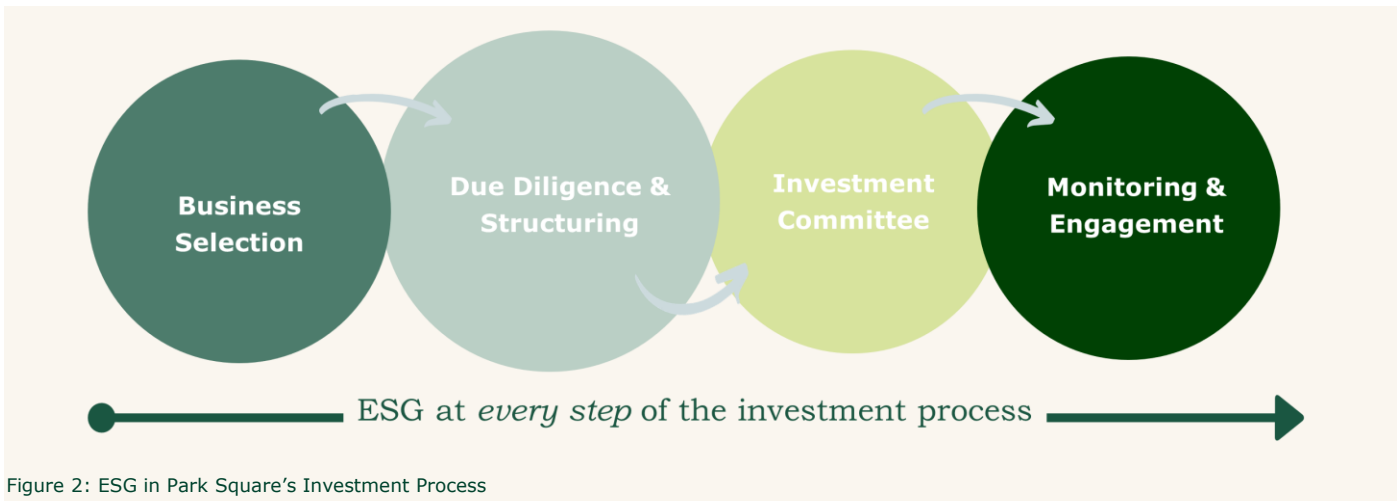


Figure 2: ESG in Park Square's Investment Process

Business Selection

01 Exclusions Check

Park Square operates a comprehensive exclusions policy, refined since inception and formed based on LP requests and market best practice. Each investment is formally screened against the Firm's exclusions criteria.

02 3rd Party ESG Data

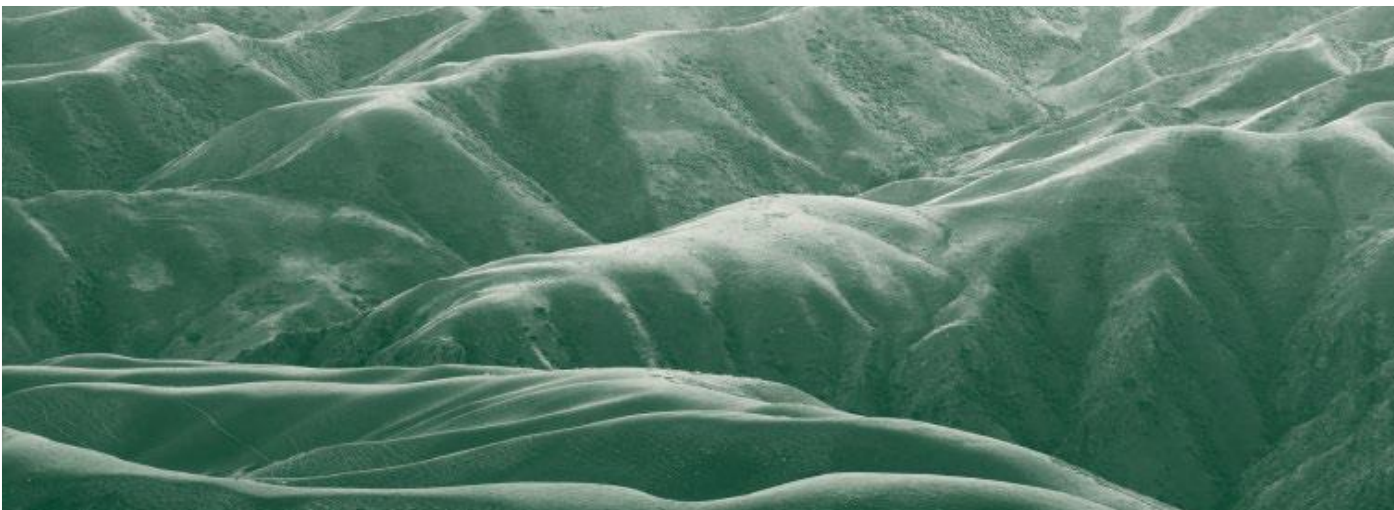
We utilise RepRisk for initial and ongoing controversy screening. RepRisk is a global ESG risk platform leveraging AI and machine learning to analyse public information and identify material ESG risks. The platform is able to analyse over 100,000 public sources in 23 languages every day to uncover potential risk incidents related to any of 73 ESG topic tags, culminating in a risk rating for each company.

03 Initial Screening

We perform an initial, high-level screen of material ESG risks based on sector and geography, using SASB and MSCI materiality frameworks and globally-recognized geographical indices.

04 Sponsor Considerations

We understand our limitations as credit investors when it comes to engaging with companies, as the primary responsibility for governance generally lies with the controlling equity owner. Prior to every investment, Park Square assesses the private equity sponsor's approach to ESG integration. The assessment covers considerations around the sponsor's governance, transparency, business practices and regulatory compliance.



Due Diligence and Structuring

01 Due Diligence Review

Using a high-touch “private equity-style” due diligence process, Park Square seeks to differentiate itself on the quality and depth of its investment analysis. Throughout this process, Park Square usually has access to detailed materials such as the offering memorandum, sponsor due diligence, audited financials, sustainability reports and market studies. Where appropriate, Park Square commissions its own proprietary due diligence.

02 Expert Networks

We access industry-leading specialists via expert networks, to assist in high quality analysis of ESG issues.

03 KPI Data Collection

A typical challenge around ESG assessment and monitoring is the availability of ESG data. During the due diligence process, Park Square collects publicly available ESG data on the prospective company. This is used to inform the risk exposure and management assessment and serves to identify any data gaps that may need to be followed up through the Firm’s engagement processes.

04 Risk Exposure and Management

A key stage of Park Square’s ESG Risk Screen is the assessment of the company’s exposure to, and management of a possible universe of 32 ESG factors, outlined in Figure 3.

- **RISK EXPOSURE:** An assessment of how ESG risks are likely to be material to an investment, considering factors such as the sector, key geographies, business model and past controversies.
- **RISK MANAGEMENT:** An assessment of whether the risk exposure is being addressed by internal management policies, implementation systems or KPIs.

05 Sponsor Engagement

In the case that any material ESG issues are identified, Park Square will work closely with the controlling equity owner to understand the company’s policies and procedures in place to mitigate identified risks.

Figure 3: Park Square’s landscape of ESG risks



Moving beyond standardised frameworks...



During the risk assessment process, Park Square goes beyond the topics identified by leading standards and frameworks. Sector level standards and frameworks may only provide part of a company's ESG story and could fall short when accounting for company-specific nuances. The risk exposure and management section of our proprietary ESG risk assessment tool is completed during the investment process and finalised once all diligence information has been reviewed. The deal team is therefore more informed about company-specific ESG risks and able to add further value to the ESG assessment above what is typical of the sector and key geographies.

Climate Risk Considerations



Climate risk assessment forms a key part of this process. Climate change and associated climate scenarios have the potential to impact almost every business, through its own operations, customers or supply chain. Using the SASB Climate Risk Bulletin, Park Square's proprietary screening tool maps SICS industry specific physical, transition and regulatory risks, allowing for the climate-focused analysis. More information regarding Park Square's approach to climate risk can be found within the dedicated climate policy, available on Park Square's website.

Investment Committee

01 ESG Assessment Summary

The summary output of Park Square's ESG risk assessment tool is included in the Investment Memorandum of every new corporate investment opportunity. This output includes a proprietary ESG score, the strongest and weakest ESG performance areas and if required, a comment from the deal team.

Material ESG concerns are also flagged in the investment concerns section of the main IC memo.

02 ESG Committee Oversight

Material ESG concerns are discussed with Park Square's ESG Committee ahead of discussion at the Investment Committee.

Members of the ESG Committee also sit on the Firm's Investment Committee and can comment on any material ESG risks.

ESG Scores

Park Square's scoring methodology focuses not on the number of risks the company is exposed to, but rather how effectively a company is managing those risks.

Each element of E, S and G receives a possible score of 0-5.

<1 A company is potentially not managing its ESG risks effectively or has not provided information on how risks are managed

1-5 A company is managing all ESG risks effectively.

ESG Margin Ratchets or “ESG Linked Loans”



During the deal structuring process, Park Square reviews and may suggest clauses related to ESG KPIs. These KPIs typically have a positive or negative impact on the loan’s margin depending on whether the target is achieved or missed.

The presence of such loans has increased in the past two years with a third of Park Square’s direct lending deals in 2022 containing such a facility. The Firm aims to continue providing ESG-linked facilities in order to directly incentivize borrowers to improve their sustainability practices.

Monitoring and Engagement

01 Quarterly Portfolio Review

RepRisk ratings and material ESG updates are discussed in a formal quarterly portfolio review organized by the CFO and attended by the full investment team.

02 Incident Alerts

Park Square receives real-time alerts from RepRisk if an issue is identified and associated with a portfolio company. This allows Park Square to assess and engage with the company, if relevant, to understand the incident and respond quickly.

03 Company Reporting

In many cases, alongside financial reporting, Park Square receives annual sustainability reports (or similar information) from portfolio companies. These are reviewed upon receipt to complement our assessment of ESG risk exposures and management practices.

04 Engagement

Where a material incident or emerging risk is identified throughout Park Square’s investment hold period, Park Square will engage with the sponsor and / or portfolio company to understand their approach to managing and mitigating the risk. The business may be placed on a “watch list” and given a heightened degree of scrutiny by the Investment Committee. If the Investment Committee’s concerns cannot be successfully mitigated or addressed, a decision to seek divestment may be made by the Investment Committee.

05 Data Collection

Park Square collects information for a standardised set of ESG metrics annually through its portfolio-wide questionnaire. Park Square works with leading ESG data software, Novata, to ensure data quality and alignment. The included metrics align with globally recognised frameworks and standards for disclosure and allow the Firm to monitor improvements in ESG KPIs over time at a company, fund and portfolio level.

For more information about Park Square’s approach to ESG, please see the firm’s [ESG policy](#), or contact ESG@parksquarecapital.com.

