



Muzinich & Co., Inc.
United Nations Global Compact
Communication on Progress

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Muzinich & Co

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The Ten Principles of the UN Global Compact

Human rights

- 1) Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2) Make sure that they are not complicit in human rights abuses.

Labour

- 3) Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4) The elimination of all forms of forced and compulsory labor;
- 5) The effective abolition of child labor; and
- 6) The elimination of discrimination in respect of employment and occupation.

Environment

- 7) Businesses should support a precautionary approach to environmental challenges;
- 8) Undertake initiatives to promote greater environmental responsibility; and
- 9) Encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- 10) Businesses should work against corruption in all its forms, including extortion and bribery.

Muzinich’s Commitment to the UN Global Compact Principles

Muzinich & Co., Inc. (together with its affiliates throughout this questionnaire except where specified or where specific affiliates are named, “Muzinich” or the “Firm”) is delighted to share our first United Nations Global Compact (UNGC) Communication on Progress (COP). We express our support for the ten underlying principles of the UNGC and the seventeen UN Sustainable Development Goals (SDGs). As an investor and as a firm, Muzinich believes operating in a generally sustainable manner is paramount to the long-term success of the companies we invest in, to our investment returns and ultimately to our own business operations.

In addition to being a UN Global Compact signatory, Muzinich has been a signatory to the UN-supported Principles for Responsible Investment (PRI) since 2010. We believe the greatest impacts we can have on the environment and society come from the investment decisions we make, whether that comes from supporting job creation by lending to small businesses or from targeting companies with sector-leading ESG practices via best-in-class strategies. We also believe it is important to focus on our own day-to-day operations and to follow the key sustainability principles that we expect of companies in which we invest.

Muzinich continues to develop its focus on integrity and on operating in a sustainable manner. Our staff are engaged in new initiatives to reduce our environmental footprint and provide a healthy, diverse and welcoming workplace for them and our broader stakeholder base. In this COP, we describe the policies and actions we are taking to ensure our alignment with the UNGC principles and lay out plans for further development. We are committed to transparency and accountability, and will share this COP with clients and the public via the Muzinich website.

Policies and Actions Relating to the UNGC Principles

As a financial services company, we consider our direct impacts on the environment and society to be small relative to larger, more resource intensive companies. Nevertheless, we consider it part of our duty as a corporate citizen to manage and minimise our negative environmental and social impacts and to maximise our contribution to a more sustainable future.

Furthermore, we signed the six UN-supported Principles for Responsible Investment (PRI) in 2010. We have long supported the key concepts of considering environmental, social and governance (ESG) factors throughout our investment practices as we believe this will better align our investment outcomes with the broader objectives of society.

Below we list our key policies and actions as they relate to each of the underlying UNGC principles.

Human rights

- 1) *Businesses should support and respect the protection of internationally proclaimed human rights; and*
- 2) *Make sure that they are not complicit in human rights abuses.*

We identify our key stakeholders as our clients, permanent and contract members of staff, consultants, trading counterparties, and investee companies. The Firm is committed to respecting the rights of our key stakeholders, in particular our staff and contractors. Our workforce is our single greatest asset and addressing human rights concerns is critical to the ongoing success of the Firm. We aim to ensure fair, transparent and equal policies in how we recruit, remunerate, develop, and retain our staff. Policies and procedures relevant to human rights can be found in our policy documentation including the internal *Muzinich Employee Handbook*, and the publicly available Muzinich & Co. Limited *Modern Slavery Transparency Statement*.

Customer rights

We aim to uphold the highest possible standards of customer service and protection of customer rights. Muzinich & Co., Inc. is a Registered Investment Adviser with the SEC and Muzinich & Co. Limited is authorised and regulated by the FCA.

Policies and procedures relating to customer rights can be found in the *Muzinich Employee Handbook*, *Muzinich local Compliance Manuals*, and the *Muzinich Global Code of Ethics*. Customer privacy is a fundamental aspect of customer rights. We have a publicly available

Privacy & Cookies Policy which is kept up to date and aligned with the EU's General Data Protection Regulation (GDPR).

We have cyber security systems and controls in place to protect the Firm, client details and assets. We maintain an IT policy that is based on the U.S. Commerce Department's National Institute of Standards and Technology (NIST) framework and covers all parties who are granted access to our systems. Our network and information security architecture includes enterprise solutions that are configured according to industry best practice. Information technology assets are monitored, and we perform quarterly vulnerability scans and penetration tests.

Future initiatives relating to the protection of human rights:

- Ensure permanent, temporary and external contract staff are paid at least the legal minimum wage and, where possible, the appropriate national or regional living wage where those benchmarks exist.
- Review parental leave policies to ensure they are fair and encourage equality for both parents.
- Develop risk register of potential human rights abuses in relation to all stakeholders.

Labour

- 3) *Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;*
- 4) *The elimination of all forms of forced and compulsory labour;*
- 5) *The effective abolition of child labour; and*
- 6) *The elimination of discrimination in respect of employment and occupation.*

We aim to uphold the highest labour standards throughout our operations and to scrutinise the labour practices of the companies in which we invest. All our offices are located in regions which apply robust regulations on labour practices, however, we recognise the risks of modern slavery and other illegal or undesirable labour practices, particularly in our supply chain. Consideration of labour rights are contained in the following our policy documents and/or procedures including: *Muzinich Hiring Policy* and the publicly available *Muzinich & Co. Limited Modern Slavery Transparency Statement*.

Equality, diversity and inclusion in the workplace

We have formalized policies on equal opportunities. We believe our stance on diversity and inclusion has a positive impact on our ability to attract and retain the best talent by creating a culture that values difference and embraces diversity of thought. We aim to foster an inclusive culture that develops and promotes employees based on their capabilities and

does not tolerate any form of discrimination, bullying or harassment. This includes giving full and fair consideration to applications from people with disabilities and learning difficulties.

In 2018 we conducted our first *Inclusion and Belonging Survey* with positive results. A large majority of employees signalled that they feel a sense of belonging to the Firm. The survey also highlighted areas for us to focus on in the future, in particular, the way in which managers and senior leaders at Muzinich prioritise diversity in their day-to-day work.

As part of our commitment to gender diversity in the asset management industry, we signed the UK Women in Finance Charter¹ in 2018 on behalf of Muzinich & Co. Limited and its subsidiaries. The Charter was established by the UK's HM Treasury and is a formal pledge for gender balance in financial services businesses. The Charter:

- commits firms to supporting the progression of women into senior roles in the financial services sector by focusing on the executive pipeline and the mid-tier level;
- recognises the diversity of the sector and that firms will have different starting points – each firm should therefore set its own targets and implement the right strategy for their organisation;
- requires firms to publicly report on progress to deliver against these internal targets to support the transparency and accountability needed to drive change.

Our statement of commitment to the Charter is available on the Muzinich website. We have committed to increasing representation of women in senior management positions that fall under the scope of the Charter to 42% by May 2023.

Modern slavery

Our supply chain is typical of companies in the financial sector and includes advisers, office supplies, maintenance and contracted staff. Our supplier relationships are managed locally by office or department heads and managers. Our offices are located in jurisdictions with well-established legal frameworks with general protection for human rights. We keep key supplier relationships under review and evaluate risks relating to modern slavery and human trafficking that may arise in relation to them. The Muzinich & Co. Limited commitment to the *UK Modern Slavery Act* can be found on our website.²

Future initiatives relating to labour practices:

- We will conduct its second Inclusion and Belonging Survey in 2019/20 and will aim to deliver new initiatives aimed at prioritising diversity and inclusion within the Firm.
- We will include consideration of modern slavery and other labour relations issues in our vendor due diligence of key vendor relationships procedures.

¹ <https://www.ukfinance.org.uk/women-finance-charter>

² <https://www.muzinich.com/wp-content/uploads/New-Modern-Slavery-Act-Transparency-Statement.pdf>

- We will review our hiring practices and unconscious bias training for relevant staff.

Environment

- 7) *Businesses should support a precautionary approach to environmental challenges;*
- 8) *Undertake initiatives to promote greater environmental responsibility; and*
- 9) *Encourage the development and diffusion of environmentally friendly technologies.*

We aim to reduce the negative environmental impacts relating to our day-to-day business operations. As a financial services company with roughly 200 staff, we view our environmental footprint as relatively small, however we are conscious of the opportunities to further reduce impacts relating to the Firm's energy use, employee travel and physical waste.

Transport: We have steadily increased the number of internal and external meetings held by conference call or by video conference, rather than by travelling to meetings in person.

Resource use and waste: We use printing paper that has been manufactured from FSC or PEFC certified sources. We also have in-office water filtration installed in our offices (with self-shutting water taps) to reduce use of disposable plastic water bottles. Our employees are encouraged to recycle and recycling bins are in place in each office aligned with the recycling facilities that are locally available.

Future initiatives relating to environmental practices:

Carbon emissions: We will conduct the first carbon footprint on our global operations before next year's COP submission in August 2020. This is the first step towards reducing our carbon footprint in line with global carbon reduction targets.

Physical waste: We continue to review options to reduce physical waste, in particular single use plastics and non-readily recyclable materials and improve recycling at our offices in general.

Anti-corruption

- 10) *Businesses should work against corruption in all its forms, including extortion and bribery.*

Muzinich & Co. Limited is authorised and regulated by the FCA, and Muzinich & Co., Inc. is a Registered Investment Adviser with the SEC. Overall, we believe our activities remain generally low risk from a bribery and corruption perspective, however we have expanded

our distribution activities into a number of jurisdictions that we deem to be higher risk including a number of Latin American countries.

When we onboard a new distributor or client, we perform a detailed financial crime risk assessment according to local requirements and subject to approval from the appointed officer to monitor financial crime. The risk assessment includes a consideration of both money laundering and corruption risks. We may reject a new distributor in circumstances where one or more countries in which it operates are deemed excessively risky from a financial crime perspective or the distributor is deemed to have inadequate systems and controls for financial crime. Enhanced due diligence is applied to all distributors that are not deemed low risk. We will not use distributors that market to retail clients in higher risk jurisdictions without clear procedures to mitigate those risks.

We value our reputation for integrity and ethical behaviour, and we are committed to maintaining the highest standards of business conduct, and we have a zero-tolerance policy towards bribery. Our compliance department manages our exposure to corruption issues via the following policy documents and/or procedures:

- Muzinich's *Global Code of Ethics* and local *Compliance Manuals* (covering the following jurisdictions: Ireland, France, Switzerland, Germany, Italy, Spain, Singapore, US, UK)
- Financial Crime, Anti-Money Laundering and/or Terrorist Financing Policies, where applicable for the relevant jurisdiction Know Your Customer (KYC) Procedures

Muzinich's *Global Code of Ethics* includes policies and procedures relating to:

- Personal securities
- Insider trading
- Gifts and entertainment
- Anti-bribery and corruption
- Outside activities
- Conflicts of interest
- Political contributions and political activities

Our *Anti-Bribery and Corruption Policy* is designed to comply with our global obligations including compliance with the US Foreign Corrupt Practices Act and the UK Bribery Act. In addition, our Compliance team conducts ongoing face to face training of all staff on the Policy.

Our Commitments Relating to the UNGC.

Initiative	Joined	About initiative	Role	Link
UN-Supported Principles for Responsible Investment *	2010	The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.	Signatory	https://www.unpri.org/signatories/muzinich-and-co/1519.article
UK Women in Finance Charter	2018	The Charter is a commitment by the UK Treasury and signatory firms to work together to build a more balanced and fair industry. Firms that sign up to this Charter are pledging to be the best businesses in the sector. The Charter reflects the government's aspiration to see gender balance at all levels across financial services firms.	Signatory	https://www.gov.uk/government/publications/women-in-finance-charter
Japan Stewardship Code	2018	The Japan Stewardship Code was established by the Japanese Financial Services Agency and was publicly disclosed in February 2014. The code promotes good practices with regards to investor stewardship practices including managing conflicts of interest, monitoring investee companies and reporting to clients on engagement activity.	Signatory	https://www.fsa.go.jp/en/refer/councils/stewardship/20170529.html
LGPS Code of Transparency	2018	The Code is a voluntary code and covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities. An Investment Manager may sign up to the Code in writing in the form agreed by the Board. By doing so the Investment Manager is demonstrating its commitment to the transparent reporting of LGPS investment costs and fees to administering authorities.	Signatory	https://www.lgpsboard.org/index.php/the-code
Pensions for a Purpose	2019	A collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment. The aim of the organisation is to promote understanding of impact investment by effectively sharing news stories, blogs, case studies, academic research and thought leadership papers and acting as a first port of call for journalists seeking comment on impact investment-related issues.	Member	https://www.pensionforpurpose.com/knowledge-centre/thought-leadership
European Leveraged Finance Alliance ("ELFA")	2019	ELFA is a trade association comprised of European leveraged finance investors that seeks to create a more transparent, efficient, and resilient leveraged finance market while acting as the voice of its investor community.	Founding member	https://elfainvestors.com/who-we-are

*With the exception of the UN-supported Principles for Responsible Investment which Muzinich & Co., Inc. together with its affiliates has signed, all initiatives relate to Muzinich & Co. Limited.

Monitoring Progress on Our UNGC Commitments

Muzinich's Director of Responsible Investing will be responsible for the Firm's ongoing commitments to the UNGC mentioned in this COP. Under our corporate governance structure, our senior management and other senior professionals sit on relevant governing and review boards, committees and working groups. The monitoring of our commitments and the progress is overseen by the following individuals, boards, committees and supervisory groups:

Responsible Investing

Our Director of Responsible Investing focuses on strengthening the ongoing integration of the Firm's environmental, social and governance (ESG) policies into the investment process and broadening the Firm's ESG-based initiatives across public and private debt markets. In doing so, the Director meets with investors to discuss and determine their ESG priorities, provides our investment teams with advice on best practice and developments in the ESG space and advises on implications and potential evolutions for Muzinich's ESG policy and processes.

ESG working group

Our ESG Working Group is responsible for coordinating and implementing ESG policy within the Firm. The ESG Working Group comprises representatives from our risk, client servicing, compliance and investment teams and includes active members who sit on the Firm's Boards of Directors. The ESG Working Group meets regularly, in whole or in part, to discuss and implement firm wide ESG policies, institute account specific ESG guidelines, conduct ESG related measurements, and create relevant ESG documentation. The Group also provides training opportunities and educational programs on responsible investment.

Muzinich's Portfolio Risk Analytics Committee

Our Portfolio Risk Analytics Committee (PRAC) is responsible for overseeing our compliance with investment restrictions (including ESG restrictions) and ensuring they are appropriately coded into Muzinich's trading and portfolio management systems. Muzinich's Chief Administrative Officer and Director, Compliance, who is co-Chair of the Committee and one of the Firm's senior officers, is also involved in rolling out ESG initiatives and projects such as carbon footprint reporting.

Compliance

Our compliance department is responsible for helping ensure our employees comply with applicable laws, regulations, best practices and industry standards. Our compliance monitoring programme aims to ensure that effective policies exist for identifying, managing

or mitigating conflicts of interest or addressing requirements, that policies are adhered to and that results of reviews are effectively documented and reviewed.

Supporting the UNGC Principles via Responsible Investment Practices

As a manager of corporate credit investments, we are focused on identifying, managing and mitigating downside financial risks relating to environmental, social and governance factors. We do this in several ways:

Exclusions: We apply industry, product, and norms-based ESG exclusions to many of our credit strategies. This allows us to avoid investing in businesses and sectors which we believe are misaligned with our client's values. Some of our investment strategies require portfolio companies to be aligned with the UN Global Compact Principles.

Positive screening: Our best-in-class ESG strategies enable us to target businesses which demonstrate leading sustainability practices relative to their sector. The ESG ranking criteria used for our best-in-class ESG strategies are partially based on company alignment with the UN Global Compact Principles.

ESG integration: We integrate ESG analysis into its fundamental, bottom-up research process to account for negative externalities and ESG drivers of financial risks. ESG integration ultimately feeds into the Firm's financial models and investment decisions.

Engagement: We actively engage senior executives of companies in its investment universe to encourage transparency around specific ESG issues or changes to address such issues.

Client reporting: We report on the ESG characteristics of various strategies across different metrics such as compliance with screening criteria and the overall ESG characteristics of portfolio companies.

Addressing climate risk: We are conducting climate-risk analysis on a number of key funds with metrics on carbon footprints, stranded asset risks, green and brown revenues and similar factors. Ultimately, we intend to develop a formal climate strategy to address climate risks across all our investment strategies.

Focus on the UN Sustainable Development Goals

Muzinich sees opportunities to have a positive impact on the SDGs both as a firm and as an investor.

As a firm

Muzinich's offices are located in well-established economies and while we do invest in emerging and frontier markets, we have limited opportunities to further achievement of the SDGs directly in the course of our normal business practices. Nevertheless, we have listed the goals where we see the most impact to make a positive contribution. The actions we are taking to address these goals are mentioned in the preceding sections relating to the UNGC Principles.

- Goal 5. Achieve gender equality and empower all women and girls
- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 13. Take urgent action to combat climate change and its impacts
- Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

As an investor

We see an opportunity to leverage our position as a lender of capital to make a positive contribution to some of the SDGs. Until this point, Muzinich has not explicitly focused on the SDGs in our investment strategy but will investigate this in the coming year. In particular, we will focus on the following options:

- Develop or source research methodologies to identify and map the positive and negative contributions of companies in our investment universe to the SDGs.
- Measure and report on our direct and indirect contributions to the goals to clients and other stakeholders.
- Develop new investment strategies and products which target or tilt investments towards companies in our investment universe which make the greatest net positive contribution to the SDGs.
- Actively engage companies in our investment universe to drive meaningful change and increase positive contributions to the SDGs via the products they produce or their business conduct.
- Where feasible, engage policy makers, governments, development banks and other key stakeholders via collaborative initiatives to facilitate innovative financing options and investment opportunities for credit investors to contribute to the goals via their investments.
- Engage peers and participate in collaborative projects to support delivery of the SDGs.

About this Document

This document was prepared by Muzinich's Director of Responsible Investing and is publicly available on Muzinich's website (<https://www.muzinich.com/about/responsible-investing>). Muzinich will actively distribute this document to key stakeholders including clients.

Important Information

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The UN Global Compact is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals. The ten principles relate to good business practices relating to human rights, labour standards, the environment and anti corruption. <https://www.unglobalcompact.org/what-is-gc/participants/133276>