

No Sustainable Investment Objective

Deerpath (or “the Firm”) promotes environmental and social characteristics but does not have sustainable investments as an investment objective.

Environmental and Social Characteristics of the Financial Product

Deerpath will promote either Climate Change Adaptation and Risk Management (“Climate”) or Human Capital Management (“HCM”) in its portfolio company investments. The environmental or social factor that is promoted will primarily be assessed based on the industry in which the borrower operates. However, there is scope for a portfolio company within an industry that is assigned to Climate to promote HCM instead, and vice versa based on engagement between Deerpath and the portfolio company.

Investment Strategy

Deerpath is a leading non-bank lender in the U.S. lower middle market with a safety-first investment approach.

- Income generation strategy with consistent & strong current yield through cash pay loans
- “Safety-first” investment style prioritizing preservation of capital over yield
- First-lien loans of \$25-\$125 million in companies with enterprise value of \$50-\$250 million backed by a private equity sponsor (“PE Sponsor”)

Deerpath approaches each investment as an opportunity to establish long term relationships with PE Sponsors, and management teams. The Firm leverages its extensive investment experience to offer flexible financing solutions to fit the needs of each company with competitive terms and structures. As a direct lender in the middle market, the assessment of good governance is critical for Deerpath during credit due diligence. Deerpath assesses several factors to understand the governance practices of investee companies, including but not limited to third party diligence reviews of management background checks, human resource policies, employee benefits, corporate insurance, IT & cybersecurity, and compliance, along with a review of the company’s employee base (retention / composition). In addition, Deerpath holds a board observer seat or access to board materials where practicable. This line of communication aids in the ongoing monitoring of good governance practices within the portfolio. Further, Deerpath’s portfolio companies typically have a formal board of directors often consisting of the management team, PE Sponsor, and third-party board members which helps create strong governance practices across the portfolio.

Deerpath looks to underwrite each investment to understand from a financial perspective whether the borrower has the ability to repay the loan and what risks Deerpath is taking on by lending to the specific borrower. As part of this underwriting process Deerpath will assess the sustainability factors relevant to the specific borrower, assessing the exposure that the borrower has to sustainability factors and their management of those factors.

Proportion of Investments

It is expected that 20% of NAV in Deerpath’s portfolio will be aligned with the promotion of environmental or social characteristics at the end of Fund VII's reinvestment period. This approach has been selected for prudence, given the aggregator vehicle structure Deerpath employs, which allows the Fund to gain access to loans closed in previous fund vintages. Deerpath expects the Fund to invest substantially all of its assets in or through one or more of these aggregator vehicles. The remaining 80% of NAV will be composed of assets falling under the category “#2 Other”.

Monitoring of Environmental or Social Characteristics

Deerpath monitors each company's sustainability performance through mandatory sustainability questionnaires. All borrowers are expected to complete these questionnaires through the Firm's specialized sustainability data tracking software platform on annual basis which is monitored by Deerpath's Portfolio Reporting & Analysis team. Deerpath will also provide these borrowers with a Climate or HCM focused handbook, which includes Deerpath's expectations, a step-by-step guide on how borrowers can improve their performance on these sustainability indicators, as well as other important best practices.

An internal control mechanism is that borrowers promoting Climate or HCM are assessed against the Firm's sustainability integration framework, which has integrated the automatic distribution of borrower handbooks and questionnaires for monitoring progress on the relevant sustainability indicators. Another mechanism is oversight by the Firm's sustainable investment committee which periodically reviews implementation of the sustainable investment process and meets on an annual basis to formally discuss all sustainability investment matters, as well as on an ad-hoc basis should any issues arise.

Methodologies for Environmental or Social Characteristics

Deerpath will use the following sustainability indicators to measure the attainment of the environmental and social characteristics promoted by the Fund:

- Proportion of the assets that have certain elements of Deerpath's eight Sustainability indicators in place at time of initial Deerpath fund investment;
- Proportion of assets that have adopted at least one of the Sustainability Indicators over the last two years;
- Proportion of assets that have improved their Sustainability Indicators over the last three years;
- Proportion of assets that have received the handbook; and
- Proportion of assets that have completed the annual questionnaires.

Data Sources and Processing

Deerpath will collect data directly from borrowers through both direct due diligence and engagement with the borrower and more systematically on an annual basis via sustainability questionnaires. The sustainability questionnaires explicitly ask for borrowers to document their progress against the relevant sustainability indicators. The questionnaires will be managed by a third-party specialized sustainability software platform experienced in this activity, which tracks and presents the data in a consistent manner. Data will be assessed by the relevant borrower coverage team within Deerpath's Portfolio Reporting & Analysis team and evaluated in line with expectations. Where required, Deerpath will engage with the borrower.

Where data is missing Deerpath will not use estimates but will instead look to encourage further disclosures from the borrower.

Limitations to Methodologies

The availability and quality of data will likely vary across borrowers due to the maturity of each business and the resources available to measure and provide transparency into their relevant activities. This will not limit the ability to promote Climate or HCM by the Fund, as many of the initial sustainability indicators Deerpath would like borrowers to demonstrate improvements on are not focused on the collection and improvement on quantitative metrics. Rather, they relate to establishing the necessary foundations to better manage Climate or HCM through implementing internal policies and processes, such as instituting senior level oversight of the relevant topic being promoted.

Due Diligence

Deerpath's sustainable investment process is implemented by the Firm's investment team, who utilize the Firm's sustainability integration framework to consistently identify systemically and financially material sustainability factors throughout the investment process. Sustainability factors are considered throughout all stages of the investment process, and the depth in which sustainability factors are analyzed escalates as the stage of our overall investment diligence process progresses. This assessment is also relied upon when conducting ongoing portfolio monitoring once a transaction is completed. Sustainability findings are documented within each investment committee memo which include an exclusions criteria, PE Sponsor, materiality matrix, aggregate sustainability factor and financial impact assessments. Post-closing, sustainability due diligence and stewardship continues, including ongoing monitoring of portfolio companies' sustainability data, and the promotion of sustainability best practices across the portfolio.

Engagement Policies

If Deerpath identifies limited improvement in the borrower's performance or willingness to engage on Climate or HCM over the lifecycle of a loan, Deerpath will move to heightened engagement with portfolio companies. Heightened engagement includes sending formal letters to the borrower and/or PE Sponsor highlighting and reiterating Deerpath's expectations as it relates to the importance of improving upon Climate or HCM.

If after heightened engagement, Deerpath continues to see no improvement in the borrower's performance or willingness to engage, the Firm will move to escalation. Escalation includes formally engaging the borrower and/or PE Sponsor to discuss Deerpath's expectations as it relates to the borrower's management of Climate or HCM. Again, Deerpath may seek to exit the relationship upon the maturity of the loan if a solution is not identified and implemented.

Designated Reference Benchmark

Deerpath does not have a designated reference index benchmark for the purpose of meeting the environmental or social characteristics promoted by the fund.