



EPSILON
DIRECT
LENDING

ESG POLICY

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DISTRIBUTION ACCESS

Epsilon Direct Lending Holdings Trust and its subsidiaries' (EDL) Environmental, Social and Governance (ESG) Policy will be distributed to all persons within this Policy's scope who are responsible for the day-to-day operations of the business.

It is important that any Representative accountable for recruitment activities is fully aware of this policy and principles that govern it. The policy will be stored both in hard-copy in on-site, off-site and on the online servers.

ESG POLICY

Responsible investment is a key priority for EDL. EDL strives to provide investment that supports the growth of middle-market companies in Australia, thereby generating competitive returns for its investors.

EDL believes that responsible lending and business success go hand in hand, and as such, we have embedded consideration to ESG matters throughout all stages of our investment and portfolio management policies, processes and procedures, including our overarching Risk Appetite Statement.

It should be noted that EDL's ESG commitments are not simply to further the profitability of its shareholders and investors, but also because it is committed to doing the right thing from an ethical perspective.

EDL has undertaken to only support borrowers who are active in their approach towards their environment impact management, social responsibility and corporate governance.

This Policy is informed by the principles set forth in the United Nations-supported Principles for Responsible Investment, to which EDL is a signatory.

This Policy provides an overview of EDL's general approach and notes where underlying Policies, Processes, Procedures and Statements provide more detailed considerations to ESG matters.

DEFINITIONS

In considering ESG, EDL has considered in more detail each area which warrants specific consideration. The list is not exhaustive but is seen as the minimum criteria which should be considered when making investment recommendations.

Environmental

- Climate Change: Does the company actively pursue the reduction of its impact on climate change? Does the company's activities lend to an outsized climate impact relative to other industries or companies in its industry? Does the company transparently report on its impact?
- Natural Resources: Is the company involved in the extraction of natural resources? What impact does this extraction have on the environment globally and locally, when considering both its direct activities and the end use of the materials it extract? How intensive is the company's use of land and finite resources, and high impact raw materials?
- Pollution and Waste: Does the company produce waste or pollutants? How impactful are those waste and pollutant products, in an absolute and relative sense? What opportunities does the company possess, irrespective of economic rationale, to reduce its waste and pollutant impact? Does the company use excessive packaging materials, or produce excessive non-recyclable and short life materials?

- Environmental opportunities: Does the company actively seek and promote opportunities to both manage its own environmental impact and those of its employees, suppliers and customers?

Social

- Human Capital: Does the company clearly strive to eliminate slave and child labour throughout its supply chain? What commitment does the company have towards proactive labour management? Does the company have a strong track record of outcomes and reporting across health and safety matters? Does the company comply with the Modern Slavery Act?
- Product Liability: what is the company's track record in delivery its products safely across both its employees and its customers? What is the company track record, proactiveness and transparency in its management of privacy and data security matters?
- Stakeholder Opposition: How well does the company engage with stakeholders across all matters relating to ESG? Does it have a history of misleading or deceptive conduct across these matters?
- Social Opportunities: How does the company protect and enhance the wellbeing of the community and customer base it serves? Does the company provide access to subsidized healthcare, workplace physical and mental health wellbeing and domestic & family violence support for its workforce?

Governance

- Corporate Governance: Does the board have strong diversity? Is executive pay excessive and under scrutiny? Is executive pay aligned to ESG outcomes? Are its financial results audited and does it have a strong track record in governance matters? Are the owners or controllers of the company of sound reputation?
- Corporate Behaviour: Has the company demonstrated ethical decision making? Have they been involved in anti-competitive practices? Is there any history or tax or corruption related activities?

Investment Decisioning

The Loan Investment Policy, Process and Procedure document contain the specific considerations for assessing ESG matters. It is mandatory that this document is followed. EDL's Risk Appetite Statement specifically notes that it has nil appetite to pursue or support lending activities where the borrower's ability to manage environmental, social and governance risks is questionable.

Post-Investment Reviews

EDL frequently reviews the performance of its borrowers in accordance with its Loan Portfolio Management Policy, Process and Procedure document. Such reviews consider its ongoing ESG impact. Whilst its loan legal documentation does not provide for the ability to demand repayment if the company worsens its ESG footprint, any material deviation from its core business activities, or litigation matters may trigger events of default. Irrespective of its legal ability to demand changes relating to ESG, or repayment of loans, EDL will always strive to influence its borrower's ESG outcomes in a positive matter.

NEGATIVE SCREENS

As a responsible corporate lender, we are committed to promoting sustainable business practices and upholding high standards of ESG performance. We recognise that not all businesses may meet our ESG standards and that some industries may pose significant risks and challenges to these standards.

EDL has established negative screens within our ESG policy to guide our lending decisions and ensure alignment with our values and sustainability objectives. Our negative screens aim to exclude businesses engaged in activities that may cause significant harm to the environment, society, or have poor corporate governance practices.

As part of the initial transaction screening process the sector is selected based on ANZSIC methodology. Additionally, ESG risks, ESG policy, Risk Appetite Statement and fund mandate are all considered and commented on.

Environmental

Segment	Full / Partial	Overall Risk Assessment
Animal cruelty	Full	
Chemicals	Partial	Negative screens applied. Use of chemicals in a manner compliant with laws and regulations (both environmental and workplace safety) and where such uses are not associated with broad environmental harm, specific consideration will be given to restricting potential future use of harmful chemicals.
Destruction	Partial	Reference to "destruction" is construed to align to quarrying services in this response. Quarrying activities for general infrastructure application (e.g., rock, sand, gravel) is considered occasionally however is not a core target industry for Epsilon. Permit and law compliance is subject to third party due diligence in all instances, and the magnitude of quarrying activities are considered against reputational risk, habitat destruction and local societal objections.
Drift net fishing	Full	
Fossil fuels	Full	We extend fossil fuel extraction to downstream services providers. Consideration will be given to service providers who derive <25% revenues from fossil fuel end customers, with a focus on reduction in that revenue stream.

Genetic engineering	Full	
Logging	Full	
Nuclear power	Full	
Palm Oil	Full	

Social

Segment	Full / Partial	Overall Risk Assessment
Alcohol	Partial	Producers are in scope. Diligence focuses on demographics both targeted and consuming the product along with regulatory compliance
Gambling	Full	
Human rights abuses	Full	
Junk food	Partial	Consideration is given to advertising and labelling practices. Demographic consumption statistics and general food safety are strong considerations.
Labour rights violations	Partial	Where labour rights have been violated, consideration will be given to remediation, ownership (e.g., did incident(s) occur under past owners or management teams?) and severity.
Pornography	Full	
Tobacco	Full	
Weapons	Full	

Governance

Segment	Full / Partial	Overall Risk Assessment
Cybersecurity	Full	
Directorships	Partial	Transactions with conflicted directorships held by borrower board members are fully screened out. Independent directors are typically strongly encouraged but are not mandatory.
Corruption	Full	
Gender diversity	Partial	Consideration is given to gender diversity, particularly at senior management and board levels.
Political activities	Partial	Transactions where shareholders/management are lobbying are screened out. Arm's length donations are reviewed.
Remuneration	Partial	Excessive remuneration is reviewed. Transactions will typically limit shareholder and executive management bonuses and dividend distributions through negative controls in loan facility documentation.
Taxation	Full	

POSITIVE SCREENS

While we have chosen not to use positive screens in our ESG policy, we recognise the importance of promoting positive environmental, social, and governance practices among our borrowers. Positive screens are criteria used to identify and prioritise lending to businesses with strong ESG performance and initiatives. Although we believe negative screens provide sufficient guidance to ensure we do not fund businesses that conflict with our values and objectives, we encourage our borrowers to demonstrate their commitment to sustainability and ESG principles. We also aim to engage with our borrowers to help them improve their ESG performance and support their transition to more sustainable business practices.

THEMATIC INVESTING

Whilst Epsilon does not target specific thematics from an ESG perspective, there are industries listed below which tend to align to sectors which support sustainable and predictable earnings.

- Education
- Healthcare
- Medical products
- Recycling
- Renewable energy

- Social infrastructure (childcare and health services)
- Waste management

SCOPE

This Policy extends to all Employees, Founding Partners, Directors and contractors of EDL (Representatives).

RESPONSIBILITIES

This Policy is the responsibility of the Founding Partners of EDL

REFERENCES

Loan Investment Policy, Process and Procedure

Loan Portfolio Management Policy, Process and Procedure

Risk Appetite Statement