The EU Sustainable Finance Disclosure Regulation | Article 3 and 4 Disclosures

This document has been prepared for the purpose of meeting the specific disclosure requirements set out in Articles 3 and 4 of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, as may be amended, supplemented, consolidated, substituted in any form or otherwise modified from time to time (the "Disclosure Regulation").

As of the date of this document the regulatory technical standards setting out further detail on, and assisting in, the application of the Disclosure Regulation have been delayed and will not be in force on 10 March 2021. It is expected that this document will be reviewed and updated once the relevant regulatory technical standards come into effect. This document may be further updated to consider the Regulation on the Establishment of a Framework to Facilitate Sustainable Investment (Regulation EU/2020/852) (the "Taxonomy Regulation") once it comes into effect on 1 January 2022.

Muzinich's Approach to Sustainable Investment

Muzinich recognizes that its investments can have a large impact on the environment and society and vice versa. We are committed to responsible investment including, but not limited to, the consideration of environmental, social and governance ("ESG") factors in investment decisions; the inclusion of appropriate disclosures on ESG activities; the promotion of responsible investment best practices; and engagement with companies individually or in collaboration with other investors on ESG issues.

Muzinich recognizes the importance of integrating ESG factors into its investment and risk processes and believes that this is aligned with the aim of achieving the long-term financial objectives of its investors. Muzinich understands that this will also support the better functioning of the companies it invests in, improving behaviors in a wide range of markets and industries and having a positive impact beyond the financial markets.

For more details, please refer to the materials describing the investment strategy of the relevant fund or mandate and associated investor materials and Muzinich's Responsible Investment Policy.

What are Sustainability Risks and Sustainability Factors?

Sustainability risks mean an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. Such risks can have a material impact on the profitability, liquidity, financial profile and reputation of an investment and the return of a financial product.

Sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

What are Principal Adverse Impacts?

Principal adverse impacts ("PAIs") are the impacts of investment decisions and advice that result in negative effects on sustainability factors.

How Muzinich Integrates Sustainability Risks into the Investment Decision-Making Process

Muzinich recognizes that investments can have an impact on the environment and society, but that sustainability risks can have a material impact on the profitability, liquidity, financial profile and reputation of an investment and consequently on its return.

While Muzinich considers the potential materiality of sustainability risks alongside financial metrics as part of its research and investment process, it does not follow a mechanistic approach to determine how certain sustainability risks should impact buy, sell or weighting decisions on investments. Instead, it assesses sustainability issues and potential materiality on a case by case basis based on available ESG data. Muzinich considers there to be differences in the way it can integrate ESG into the investment process for different sub-asset classes of credit:

- Bonds: Muzinich’s process to address the financial implications that may arise from sustainability risks, include, but are not limited to, the integration of ESG research as part of in-depth bottom-up analysis by the investment teams; the use of third party ESG data resources; and engagement with underlying issuers to encourage better ESG transparency and / or behaviors.

- Loans and private debt: Muzinich’s ability to gather primary and secondary ESG data from public sources is largely dependent on an issuer's regulatory disclosure requirements. Whereas, when making private market investments, Muzinich may have better access to management and thus relevant data, allowing for a deeper ESG due diligence on a company.

Information Regarding the Consideration of Principal Adverse Impacts of Investment Decisions on Sustainability Factors

Muzinich considers PAIs when making investment decisions. Muzinich’s investment research and due diligence involves reviewing and evaluating a range of ESG factors. Muzinich seeks to identify the potential positive and negative impacts of specific ESG trends and corporate behaviours and factors these into its investment decisions. Ultimately, Muzinich seeks to avoid investments where sustainability factors present undue financial risks.

Muzinich may factor consideration of whether companies we invest in contribute negatively to environmental objectives (such as climate change mitigation, climate change adaptation, and pollution prevention and control) or social objectives (such as corporate stewardship, human or labor rights controversies, anti-corruption and anti-bribery) and therefore potentially represent PAIs. Muzinich may also factor consideration of whether companies it invests in contribute positively to environmental objectives or social objectives (such as tackling inequality, fostering social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities).

Muzinich’s typical approach to integrating consideration of sustainability risks and PAIs is to consider relevant ESG factors alongside more traditional financial factors as part of its research and due diligence process. In practical terms, Muzinich’s research analysts gather relevant information either directly from issuers, from public sources or indirectly from third party ESG data providers and other credible sources. Muzinich seeks to include relevant information on PAIs in its standardized company research templates (in the case of publicly traded securities), and investment memorandums (in the case of private debt) which contain both quantitative ESG scores from external providers and qualitative ESG commentaries produced by our investment teams.

Consideration of PAIs in our investment research includes factors such as, controversial ESG incidents which are likely to materially impact an issuer’s operations and / or environmental or social factors; and alignment with international standards or generally recognized principles such as those which underpin the United Nations Global Compact including the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

In order to avoid or reduce any PAIs identified, where these are considered material (taking account of the size, nature and scale of our activities), Muzinich may seek to engage with an issuer with the objective of addressing the specific PAI in question or Muzinich may exclude these companies from further consideration for investment. Muzinich may exclude securities or issuers across all or certain portfolios that it manages based on their involvement in certain industries which it believes are widely deemed to be controversial or because they fail to meet certain minimum standards in terms of their management of certain PAIs.

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Muzinich adheres with certain business conduct rules and international standards including the UN-supported Principles for Responsible Investment (PRI) and seeks to align with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Muzinich supports the objectives of the Paris Agreement and is taking steps to align with objectives such as considering individual issuers' carbon emissions and carbon intensity; and the likely climate trajectories and commitments of relatively carbon intense issuers. Muzinich also seeks to engage companies individually or in collaboration with other investors with the objective of improving issuer disclosures on climate-related financial risks and commitments to climate-risk mitigation.

Date: March 2021