



Signatory of:



# Tree Line ESG Policy



# **Tree Line ESG Policy**

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# Tree Line ESG Policy

## ***I. ESG Policy Introduction***

Tree Line Capital Partners, LLC (“Tree Line”) is an asset management firm focused on direct lending to the lower middle-market. As a lower middle-market direct lender, Tree Line maintains direct relationships with hundreds of private equity firms and screens thousands of investment opportunities. As a guiding principle, Tree Line aims to integrate responsible investing into every phase of our investment process across all Tree Line funds which is governed by our Environmental, Social & Governance Policy (“ESG Policy”).

We believe it is our duty both as investors and citizens to not only acknowledge the effect of our investments on society and the environment, but where possible, to actively promote the success of those businesses that make positive change in the world possible.

In addition to its ESG Policy (set out in further detail in Part III), which forms part of the investment decision-making process, Tree Line also participates in various corporate initiatives and strives to track its investments’ potential for growth and development in underserved markets.<sup>1</sup>

- **Corporate Initiatives** include Tree Line’s corporate capital commitments and volunteerism to environmental and social causes. Tree Line is a member of *1% for the Planet* and contributes 1% of its management company revenue to environmental non-profits and causes. This contribution is accounted for in both dollars and volunteerism. Additionally, Tree Line will provide employees with an opportunity donate one day per month to volunteer and work with approved non-profits and organizations.
- **ESG and Responsible Investing** are embedded into our underwriting processes. We screen every transaction at three different phases of underwriting and collect data and information on every deal we screen. Tree Line has also become a signatory to the United Nations Principles for Responsible Investment. We aim to construct a portfolio that aligns with Tree Line’s own corporate values.
- **Progress Strategies** Given our unique access to the lower middle market, we look to monitor the potential for growth and development that can be achieved through our platforms by working with borrowers in underserved markets.

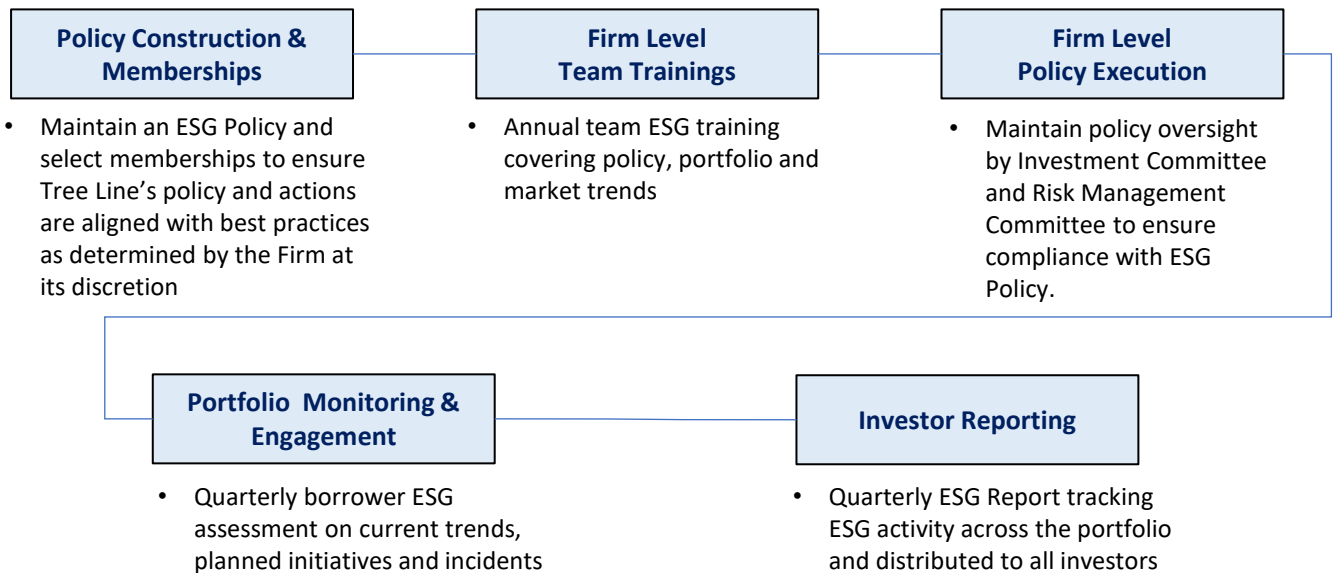
<sup>1</sup> Certain information herein relating to ESG, responsible investment initiatives, corporate initiatives or other similar industry frameworks is subject to change, and no assurance can be given that Tree Line will remain signatory, supporter or member of such initiatives or similar industry frameworks.

# Tree Line ESG Policy

## I. ESG Policy Introduction

### ESG Policy Framework

Tree Line's ESG Policy is comprehensive in its design and is a living component within our investment and underwriting ecosystem. The ESG Policy and its implementation across our firm involves: a regular review of the policy and ESG memberships, enforcing best practices and learnings through team trainings, a collaborative effort across the firm to execute the policy and monitor the portfolio, and quarterly reporting to our investors.



## II. Responsible Investing Memberships & Guidelines

Tree Line is a member of *1% for the Planet* and a signatory to *Principles for Responsible Investment*. These memberships help shape both Tree Line's corporate culture and ESG Policy. We believe it is important to establish a strong corporate culture focused on ESG and demonstrate that through the commitments we make as a team and organization.



Tree Line's commitment to *1% for the Planet* requires it contribute one percent of its annual revenue to environmentally focused non-profits on the *1% for the Planet* platform. Tree Line has been contributing annually to four non-profits which we believe have a profound impact on our environment and climate. Tree Line believes its membership to 1% for the Planet is important to tie its corporate values and goals to its ESG Policy. Tree Line has established relationships with the non-profits listed below and has contributed approximately \$650,000 since 2020.



Signatory of:



Tree Line became a signatory to *Principles for Responsible Investment* in 2020. Tree Line is a signatory to the United Nations Principles for Responsible Investment, furthering commitment to continual improvement of responsible investment practices, incorporation of ESG factors into investment analysis and decision-making processes and sharing of progress on ESG strategy and outcomes. Where consistent with our fiduciary responsibilities, we commit to the following:

- Principle 1:** Incorporating ESG issues into investment analysis and decision-making processes.
- Principle 2:** Incorporating ESG issues into our ownership policies and practices.
- Principle 3:** Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4:** Promoting acceptance and implementation of the Principles within the investment industry.
- Principle 5:** Working together to enhance our effectiveness in implementing the Principles.
- Principle 6:** Reporting on our activities and progress towards implementing the Principles.

### III. ESG Team

Our ESG Policy requires coordination and collaboration across our platform and team. We have established an ESG Team who works directly with the Investment Team, Investment Committee and Risk Management Committee to execute our policy.

The **ESG Team**, comprised of the individuals outlined below, is responsible for upholding the requirements of the ESG Policy, embedding ESG across our organization and in our investments processes, and communicating with all stakeholders of Tree Line the actions and results of our work.

The ESG Team will work directly with the Investment Team during an investment's due diligence process to ensure the ESG Policy and its requirements are being adhered to and properly presented to the Investment Committee. The ESG Team is further supported by Tree Line's **Investment Committee** who oversees every single investment decision and is accountable to ensure all ESG requirements are met.

The **Risk Management Committee**, along with the Chief Compliance Officer, will oversee the Tree Line's compliance to the ESG Policy. An annual review will be completed which will include a review of the ESG Policy in its entirety to address any necessary changes or amendments which are to be reviewed and approved by the Risk Management Committee.

#### Risk Management Committee

**Responsible for the design, implementation and oversight of the ESG Policy.**

- Tom Quimby, Managing Partner
- Jon Schroeder, Managing Partner
- Frank Cupido, Partner
- Nicole Antoon, Chief Compliance Officer
- Tina Badciong, Chief Financial Officer
- Drew McCauley, Managing Director –Risk Management

#### Investment Committee

**Responsible for the screening, scoring and monitoring of every prospective investment and portfolio company**

- Tom Quimby
- Jon Schroeder
- Frank Cupido
- Paul Kasper (SBIC)

#### ESG Team

**Works directly with Investment team to screen, monitor and report ESG activities.**

- Ally Yeargan, Vice President, ESG
- Tom Quimby, Managing Partner

#### Investment Team

**Works directly with prospective borrowers and portfolio companies to assess ESG risk and opportunities.**

- Investment Underwriting & Asset Management Team Members

## IV. ESG Investment Process

Tree Line's ESG Policy is implemented directly into our investment processes and we intend for the ESG Policy to apply to all assets under management at Tree Line. The ESG Policy requires a multi-step review during the investment process that collects and analyzes data that is included in Investment Committee memos.

### Avoid Harm Approach

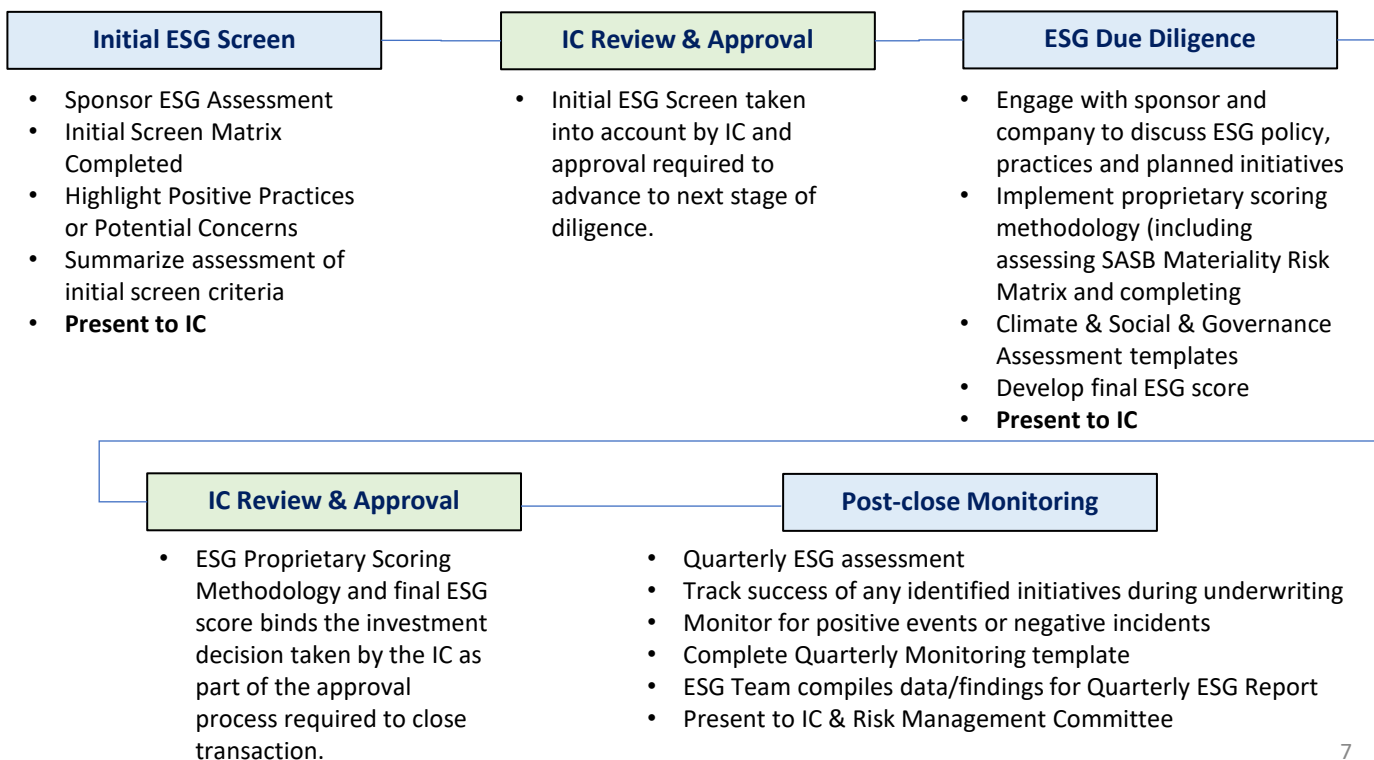
The ESG Policy has been centered on taking an “avoid harm” approach. We seek to avoid investments with companies whose products or services cause meaningful environmental or social harm. Specifically, Tree Line's policy precludes it from investing in businesses across a number of sectors or carrying characteristics that we believe, in our sole discretion, to be harmful from an ESG perspective.

#### Excluded Sectors

- |   |   |
|---|---|
| ▪ Fossil fuels extraction and refining            | ▪ Weapons manufacturing                       |
| ▪ Metals & mining                                 | ▪ Pornography and adult entertainment         |
| ▪ Thermal coal power generation                   | ▪ Tobacco products                            |
| ▪ High potential soil, air or water contamination | ▪ Nuclear energy                              |
| ▪ Non-renewable resource consumption              | ▪ Predatory consumer finance (payday lending) |
| ▪ Operators with significant GHG emissions        |   |

### Investment Process Summary

By implementing the ESG Policy, Tree Line aims to utilize a consistent and repeatable process in order to review every transaction for ESG and Responsible Investing. Our process is designed to review and screen deals for ESG early in the pre-investment stage, with increasing diligence over the course of a transaction's underwriting. The process includes a multi-step review which includes three primary components: Initial ESG Screen, ESG Credit Review, Post-close ESG Monitoring, in each case based on a proprietary scoring methodology.



## ESG Proprietary Scoring Methodology

In line with its ESG Policy, Tree Line intends to score every prospective transaction it screens and reviews with its Investment Committee. Each prospective transaction will be assessed against a bespoke set of ESG-related risk, impact and opportunity factors which are determined by Tree Line at its discretion on a case by case basis.

The **ESG Proprietary Scoring Methodology** score ranges from 0-5 and includes the ESG Initial Screen components plus the following components:

- Climate Assessment
- Social & Governance Assessment
- Portfolio Company Market Positioning and Post-close Initiatives Assessment
- SASB Materiality Risk Matrix

## SASB Materiality Risk Matrix

The SASB Materiality Risk Matrix is a screening tool utilized as part of the Proprietary Scoring Methodology during the due diligence phase of the investment process. The matrix aims to identify likely sustainability issues on an industry-by-industry basis. Tree Line Investment Teams use the tool to help assess whether a prospective company is a fit for Tree Line's portfolio. The result of the assessment is factored into the scoring completed at the due diligence phase of the investment process.

## Post-close Monitoring

As a lender and not operating in a control position, Tree Line is limited to the extent in which it can implement change at portfolio companies. The most important step we take is in our diligence assessment of whether a portfolio company and sponsor meet the criteria of our ESG Policy. However, as of Q2 2024, Tree Line has been Agent or Lead Lender on 88% of the \$4.8 billion in commitments it has made to portfolio companies. This enables direct relationships and close monitoring of our portfolio companies.

Account managers interact with portfolio companies on at least a monthly basis to discuss key performance trends in the business. Our team continues to monitor ESG activities, initiatives and incidents across the portfolio. A Quarterly Post-close Monitoring template is completed and submitted to the ESG team which is reviewed and compiled into Tree Line's ESG database. This information will help inform if further support is provided to portfolio companies seeking follow-on capital.<sup>1</sup>

<sup>1</sup> The Post-Close Monitoring Template will be developed in respect of each investment based on the results of the initial due diligence. Further detail on the Post-Close Monitoring criteria is set out in the ESG Scoring Methodology prepared for each Fund.



## ***V. Governance & Reporting***

The governance of Tree Line's ESG Policy is overseen by two Tree Line committees, the Investment Committee and the Risk Management Committee.

### **Policy Oversight**

The **Investment Committee** is responsible for properly screening each investment applying the responsible investing principles and ensuring compliance with any ESG strategy. The Investment Committee reviews every deal a minimum of three times throughout a diligence process and a specific ESG review is required at the screening stage, underwriting stage and funding stage. Such ESG review is taken into account by the investment committee when it is making its decisions as to whether to approve a transaction.

The **Risk Management Committee** will monitor the overall effectiveness of this ESG Policy and provide an annual review of the policy. Additionally, the committee will ensure implementation at the fund level and the individual deal level.

### **Training**

Given all Investment Team Members directly interact with the ESG Policy through the screening and underwriting process, every Investment Team Member is required to attend an annual ESG training by the firm. The trainings are intended to reinforce existing policy requirements, highlight characteristics supported by organizations to which Tree Line is a signatory and discuss findings and learnings within our investment portfolio.

### **Reporting**

Tree Line will produce a Quarterly ESG Report compiling the data and results from screening, due diligence and post-close monitoring. The report will provide a comprehensive review of ESG activities across Tree Line's platform and portfolio and will also highlight the ways in which Tree Line's investment activities have had an effect on its markets and portfolio companies.

**Exhibit A****ESG INITIAL SCREEN TEMPLATE****Screening Assessment**

The Initial ESG Screen phase of an investment aims to assess multiple factors to establish an initial ESG score to be used to determine if the opportunity is a fit for Tree Line's portfolio and meets the necessary requirements set forth in the ESG Policy. This phase of review is to be completed prior to issuing a term sheet for a prospective investment. The score attributed to a prospective investment is taken into account by the Investment Committee in order to provide its approval for a proposed transaction. Tree Line specifically prohibits investments in sectors and business models listed on page 7 of the ESG Policy and are included in the Initial Screen Matrix.

During the Initial ESG Screen of a prospective investment, the following steps are completed:

**Initial ESG Screen Assessment**

- Complete ESG Initial Screen Matrix to ensure compliance with Tree Line's ESG Policy and goals.
- Review and assess sponsor's ESG Policy.
- Review and assess ESG initiatives, incidents at prospective company.

**Initial Screen Matrix****POSITIVE****NEGATIVE**

- Residential/Commercial Energy Efficiency
- Automobile Efficiency
- Combined Heat and Power
- Green Technology
- Renewable Energy/Recycling Raw Materials
- Energy Conversion Systems
- Smart Grid Usage

- Fossil Fuel Extraction, Refining, and Distribution
- Metals and Mining
- Thermal Coal Power Generation and Related
- High Potential for Soil, Air, or Water Contamination
- Non-Renewable Resource Consumption
- Operators with Significant GHG Emissions



- Low Income Community Development initiatives
- Women, Minority, and Veteran Owned Businesses
- Recruiting and managing a diverse and skilled workforce including:
  - Veteran Recruitment and Hiring
  - Minority Leadership Programs
- Responsible Sourcing Practices
- Employee Health and Wellness Programs

- Weapons Manufacturing
- Pornography and Adult Entertainment
- Gambling
- Tobacco Products
- Nuclear Energy
- Predatory Consumer Finance (Payday Lending)



- Truly Independent Board Members
- Gender and Racial Diversity in Board and Executive Management Makeup
- Data and Cyber Security Preparedness
- Executive-to-Employee Compensation Ratio
- Gender and Minority Compensation Equality
- High level of transparency and accountability at management level (reflected in written decision making and management presentations and reports)
- Independent Committees (Audit/ Compliance)

- Limited Transparency and Accountability (Minutes and Management Presentations)
- Lack of Independent Committees (Audit/Comp)
- Weak Financial Reporting / Absence of Reputable Third-Party Auditor
- Absence of Worker Safety Programs
- Limited Compliance and/or HR Resources

**Exhibit B****ESG PROPRIETARY SCORING METHODOLOGY**

The ESG Proprietary Scoring Methodology is implemented when an investment opportunity is under mandate and/or when the Investment Team is seeking the Investment Team's final credit approval. The template requires all steps from the Initial Screen Template to be completed but takes further steps to determine if a prospective portfolio company meets the requirements of Tree Line's ESG Policy and is a fit for Tree Line's portfolio. The score allocated to investments during the diligence phase will influence the investment committee's final credit approval.

**ESG Proprietary Scoring Methodology**

The ESG Proprietary Scoring Methodology requires a series of steps to be completed, including the following:

- Satisfactorily complete the Initial ESG Screen requirements, including:
  - Sponsor Assessment
  - Initial Screen Matrix Review
- SASB Materiality Risk Matrix Assessment – the Investment Team, along with the ESG Team, will look to evaluate a prospective investment opportunity utilizing the SASB Materiality Risk Matrix to help outline key ESG diligence themes.
- Climate Assessment – Tree Line has created a Climate Assessment tool to screen every deal requesting Investment Committee approval (See Exhibit C.)
- Social & Governance Assessment – Tree Line has created a Social & Governance Assessment tool to screen every deal requesting Investment Committee approval (See Exhibit C)
- Post-close Initiatives will be clearly identified noting any ESG initiatives planned by the sponsor or company.
- Scoring – the Investment Team will complete the scoring matrix to score every investment opportunity presented to the Investment Committee.
- In each case the assessment tools are subject to change and may be amended or refined depending on the proposed investment. Further details on the diligence assessments are set out in the ESG Proprietary Scoring Methodology developed for each Fund.

**ESG Score in accordance with the Proprietary Scoring Methodology**

Assessment	Criteria	Rating
Initial Screen Matrix Assessment	Assess compliance with Tree Line ESG Policy	0, 0.5, 1
Sponsor Assessment	Presence and strength of ESG policy, planned initiatives, track record.	0, 0.5, 1
Sector Classification	Assess sector with guidance from the SASB Materiality Risk Matrix	0, 0.5, 1
Climate Assessment	Assess utilizing Climate assessment matrix	0, 0.5, 1
Social & Governance Assessment	Assess strength of social & governance factors	0, 0.5, 1
<b>Initial ESG Score</b>		<b>0-5</b>

# Exhibit C ESG DUE DILIGENCE - CLIMATE AND SOCIAL & GOVERNANCE ASSESSMENTS

Tree Line completes a Climate Assessment and Social & Governance Assessment prior to the closing of every transaction. The Climate Assessment and Social & Governance Assessment each examine a prospective portfolio company's performance across a variety of climate, social and governance categories outlined below. The results of the Climate Assessment and Social & Governance Assessment are required to complete the ESG Due Diligence Review and are factored into the ESG score which are presented to the Investment Committee and taken into consideration as a deciding factor in the approval process.

Climate Assessment		
Climate Screening Categories	Risk to Company	Assessment
GHG Emissions	Low/Med/High	
Air Quality	Low/Med/High	
Energy Management	Low/Med/High	
Waste & Wastewater Management	Low/Med/High	
Waste & Hazardous Materials Management	Low/Med/High	
Ecological factors	Low/Med/High	
Other Climate Concerns	Low/Med/High	

Social & Governance Assessment		
Social & Governance Screening Categories	Risk to Company	Assessment
Compliance with UN Global Compact principles or OECD Guidelines	Low/Med/High	
Board member / Director composition	Low/Med/High	
Governance Structure	Low/Med/High	
Employee relations and remuneration of staff	Low/Med/High	
Tax compliance	Low/Med/High	
Codes of conduct / Employee Handbooks	Low/Med/High	
Human Rights / Labor Policies	Low/Med/High	
Anti-Bribery and Corruption	Low/Med/High	
Supplier Code of Conduct	Low/Med/High	