Morgan Stanley

INVESTMENT MANAGEMENT

2024

ESG Report

Morgan Stanley European
Direct Lending

ENVIRONMENTAL | SOCIAL | GOVERNANCE

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Our Commitment to ESG

Dear Investor,

We are pleased to enclose the Annual ESG Report for the Morgan Stanley European Direct Lending Fund (the "Fund", "EDL") for the year ended December 31, 2024. The report comprises an overview of ESG performance at the portfolio level and how our key ESG metrics have evolved over the course of the year. We also provide granular details on ESG at the investment level for the investments that the Fund made over the course of 2024.

MARK JOCHIMS
Managing Director, Head of European Private Credit

TOM CRESSWELL
Executive Director, Chief Operating Officer of European Private Credit

SUSTAINABILITY AT MORGAN STANLEY

Morgan Stanley has been pioneering sustainable practices within financial services for over a decade, having established the Global Sustainability Office and Institute for Sustainable Investing in 2009 and 2013 respectively, and appointing the first Chief Sustainability Officer on Wall Street in 2017. More recently, the Firm went on to become the first large US bank to commit to net zero financed emissions by 2050. In 2023, Morgan Stanley also reached over $820Bn towards its goal to mobilise $1Tn in capital for sustainability solutions by 2030, of which $640Bn is in low-carbon and green solutions. For more details on firmwide efforts to promote sustainability, please see here.

MORGAN STANLEY EUROPEAN DIRECT LENDING FUND ESG OVERVIEW

The Fund's investment philosophy is underwritten by a strong conviction that the ESG characteristics of a potential investment are essential to the credit process and to fulfilling our responsibilities as a socially and environmentally conscious strategy. To that end, the investment team conducts binding ESG diligence on each potential investment alongside the traditional credit process. At each stage of the investment lifecycle, the Fund sets out criteria for what constitute material ESG risks, the circumstances under which potential investments will be screened out due to ESG considerations, and the information and tools the investment teams utilise to fully understand, measure and monitor the ESG performance of each company.

ANNUAL ESG SUMMARY

The Fund issues this report on an annual basis. This report will outline the ESG profile of the investments that the Fund made in 2024, as well as the ESG trajectory of its sole investment in 2023. The remainder of this report will also outline some of the deal opportunities that were declined on ESG grounds and how the Fund is incentivising ESG progress through sustainability-linked margin ratchets.

As always, please do not hesitate to contact us should you have any questions.

Best regards,

Mark Jochims
Tom Cresswell

Morgan Stanley's Commitment to Sustainable Investing

For Over a Decade, MS has Charted a Leadership Position in Sustainable Finance

MS IS AN ESG EARLY-MOVER AMONGST PEERS

- MS named the first Chief Sustainability Officer on Wall Street
- First bank to commit to **net-zero financed emissions** by 2050
- Issued an inaugural **Green Bond** in 2015 to support its firmwide climate strategy

MS PUBLISHES ITS SUSTAINABILITY RELATED TARGETS TO PROMOTE TRANSPARENCY

- Issued **$1Bn Social Bond** to support affordable housing
- Mobilise $1Tn in sustainable solutions by 2030

EDL's Article 8 Investment Strategy Supported By MS's Broader ESG Infrastructure

1 **ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT ("ESRM")**
ESRM provides internal subject matter expertise to MSIM's private markets teams on environmental and social risk, conducts due diligence on relevant transactions, engages with stakeholders, and monitors emerging risks and developments in partnership with the Firm's business units, GSO and other relevant control functions.

2 **GLOBAL SUSTAINABILITY OFFICE ("GSO")**
Founded in 2009, GSO collaborates with global partners to deliver sustainable solutions for both clients and the Firm.

3 **INSTITUTE FOR SUSTAINABLE INVESTING**
Established in 2013, the ISI aims to accelerate sustainable finance by driving innovation, empowering investors with insights and supporting the development of the next generation of sustainable investing leaders.

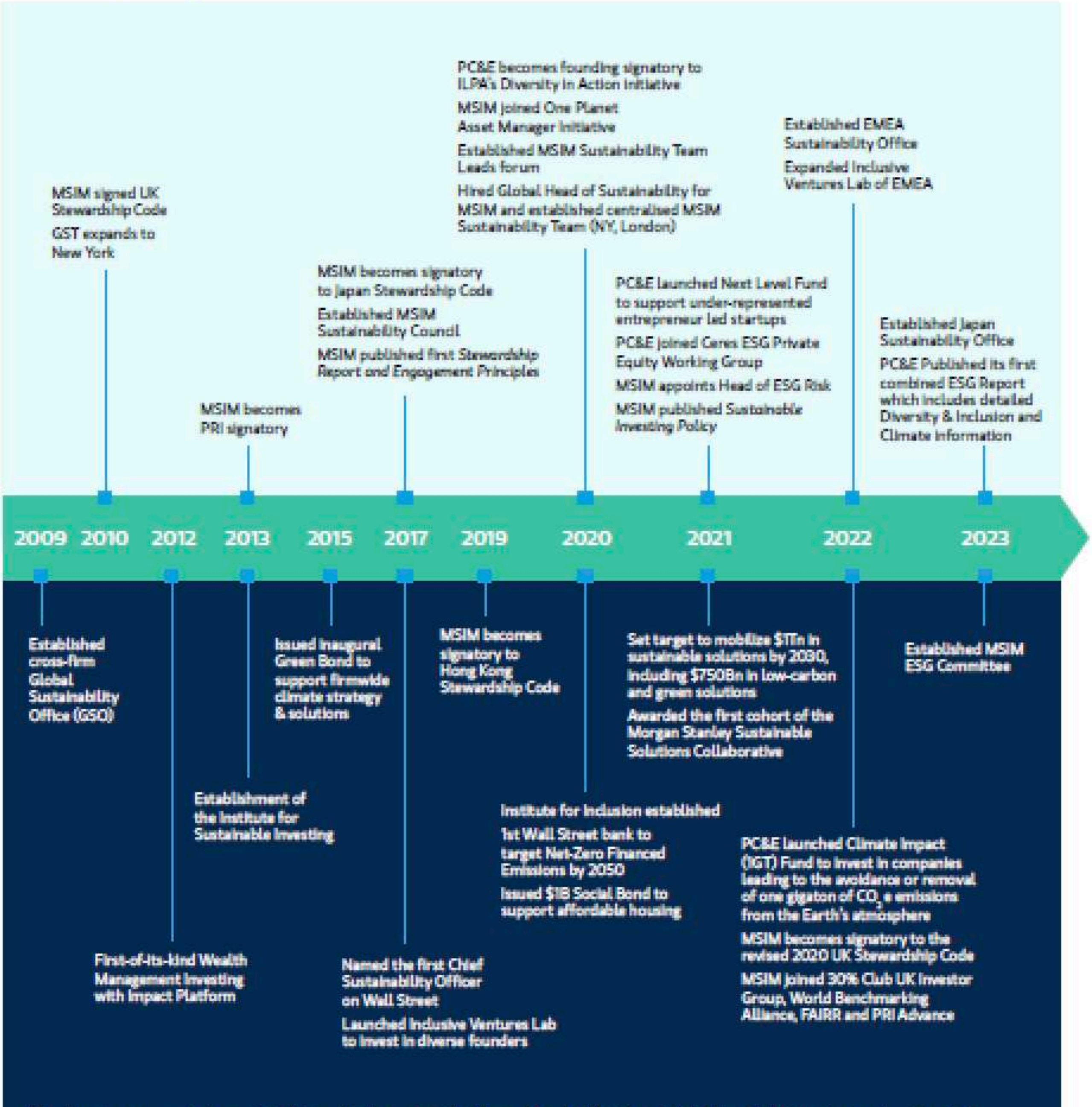
4 **MSIM SUSTAINABILITY TEAM**
Led by MSIM's Global Head of Sustainability, the MSIM Sustainability team supports MSIM's collective sustainable-related processes and governance.

5 **MSIM ESG COMMITTEE**
MSIM has established an ESG Committee co-chaired by the MSIM Head and Chief Investment Officer of the Solutions & Multi-Asset Group and MSIM's Head of Risk Management. Key topics overseen by this Committee include MSIM's ESG-related business goals, development of ESG-related products and solutions, ESG governance framework, ESG-related regulatory and reputational risks, and ESG-related public statements.

MS ESG INFRASTRUCTURE		EDL IS AN ARTICLE 8 FUND		MULTI-LEVEL ESG FRAMEWORK
• Expert ESG diligence • Ongoing support and expertise • Regulatory/investment risk management	+	• Bound to promote ESG characteristics • ESG integrated across the investment lifecycle • ESG policies are binding across all investments	=	1. Firm-level resources and risk management 2. Investment screening, diligence, and monitoring led by the Investment Team

Timeline of Sustainability-Related Milestone Across the Firm

Morgan Stanley, Morgan Stanley Investment Management, and PC&E collectively seek to advance sustainable finance through their governance, policies, business activities, and operations



Note: Timeline represents key sustainability-related events within Morgan Stanley, MSIM, and PC&E. Provided listing is not exhaustive of all sustainability-related events.

1 Morgan Stanley European Direct Lending Overview

Differentiated Model, Supported by Marquee Adviser	Scaled private credit business, leveraging the broader Morgan Stanley platform[1] to access differentiated investment opportunities
Defensive Direct Lending Strategy	Primarily floating rate, first lien loans to borrowers in non-cyclical industries[2]
Rigorous Investment / Risk Management & Oversight	Disciplined investment process, leveraging enhanced Morgan Stanley due diligence capabilities
Attractive Industry & Market Tailwinds	Direct lending is an attractive asset class that has the potential to generate strong risk-adjusted returns
Alignment of Interest	Significant GP investment across Morgan Stanley Private Credit ("MSPC") and competitive investor fee discounts to further help generate attractive net returns

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RETURNS. ACTUAL RESULTS MAY VARY. There is no guarantee that investment objective can be achieved. The statements above reflect the Manager's views and opinions as of the date hereof and not as of any future date. All expressions of opinion are subject to change without notice and are not intended to be a forecast of future events or results.

[1] Access to certain parts of Morgan Stanley may be limited in certain instances by a number of factors, including third party confidentiality obligations and information barriers established by Morgan Stanley in order to manage potential conflicts of interest and regulatory restrictions. Accordingly, the Fund's ability to source investments from other business units within Morgan Stanley may be limited. Such investment sources are not necessarily indicative of all sources that the Fund may utilise in sourcing investments. There can be no assurance that the Fund will be able to source investments from any one or more parts of the Morgan Stanley network, implement its strategy, achieve its investment objectives, find investments that fit its investment criteria or avoid substantial losses.

[2] There can be no assurance that the Fund or Manager will achieve its investment or portfolio construction objectives. Cyclical industries defined as restaurants, retail, energy, and other businesses that the Manager believes may be subject to business cycle volatility. A defensive portfolio does not assure a profit or protect against loss in a declining market.

2 How We Integrate ESG

We are committed to embedding ESG analysis in each stage of the investment process, from origination through to portfolio monitoring. The five-stage process below encapsulates our approach to integrating ESG throughout the investment lifecycle. Please see the Fund's 'ESG Framework' for more details.

1. ESG INVESTMENT RESTRICTIONS

EDL does not invest in sectors that pose significant ESG risks and, where necessary, draws on internal Morgan Stanley expert groups to assess transactions from an ESG perspective. In addition, we screen out companies that have violated either the UN Global Compact or the ILO Declaration on Fundamental Principles and Rights at Work.

2. PRELIMINARY ESG SCREENING

Before undertaking an investment, the investment team uses RepRisk to research a company's historic and current ESG record and identify potential infringements. In combination with the SASB Materiality Map and ELFA ESG scorecards, RepRisk also enables the investment team to understand the sector-specific risks associated with a potential investment.

3. ESG DUE DILIGENCE AND ASSESSMENT

The investment team uses our proprietary ESG Scorecard consisting of over 30 questions to assess companies' ESG performance. Companies that score below the cut-off are no longer considered for financing and all ESG analysis is presented to the Investment Committee in detail. We may use a variety of sources, including discussions with management and specialist ESG diligence, to gain an accurate understanding of the company's ESG performance.

4. DOCUMENTATION AND EXECUTION

The investment team seeks to implement ESG-linked margin ratchets with every borrower to incentivise progress on ESG across the portfolio. Since the ESG ratchets require borrowers to report on sustainability-related KPIs on an ongoing basis, this potentially provides us with insights into ESG performance in our borrower base and generates incentives for companies to take action.

5. ESG MONITORING AND REPORTING

We monitor the ESG performance of EDL's investments on an ongoing basis and report sustainability data and updates to investors both quarterly and annually. We track a number of key data points including the extent to which borrowers exhibit positive environmental and social characteristics, the proportion of investments subject to margin ratchets, and the evolution of companies' RepRisk scores over time (for those companies listed on the RepRisk platform).

ESG Investment Restrictions

The Fund does not provide financing to companies operating in certain industries we view as fundamentally incompatible with our ESG investment rubric.

We do not provide financing to companies that have violated the United Nations Global Compact or the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. We also exclude companies that generate any revenue from the following activities:

- Production of adult entertainment
- Production of controversial and conventional weapons
- Production of ammunition
- Production of tobacco
- Upstream production of palm oil
- Oil sand and tar sand development

In addition, the investment team excludes businesses engaging in certain other activities, if the revenue generated by tose activities amounts to over 5% of the company's total revenue. In particular, these 'partial exclusions' relate to the following activities:

- Thermal coal power generation and/or mining
- Gas extraction and/or power generation
- Nuclear power generation
- Oil exploration and/or extraction

3 Our ESG Scoring Methodology

Our proprietary scoring methodology relies on several internal and external sources. Borrowers are assessed on 30+ ESG-related factors. Below, we illustrate how the scorecard works and how we use it to filter out companies with poor ESG records.

ANNUAL ESG QUESTIONNAIRE	DISCUSSIONS WITH COMPANY MANAGEMENT AND SPONSOR	SPECIALIST ESG DILIGENCE	MORGAN STANLEY ESG INFRASTRUCTURE

ANNUAL ESG SCORECARD[1]

ENVIRONMENTAL FACTORS	SOCIAL FACTORS	GOVERNANCE FACTORS
Hazardous waste distribution	Modern slavery policy	Proportion of female board members
Renewable and green energy usage	Employee training and development	Code of conduct documents
Third-party environmental reports	Community outreach and charity	Formal company ESG policy
Recycling programs	Modern slavery check on suppliers	Proportion of minority board members
Greenhouse gas emissions reduction	Employee diversity and inclusion	Compliance functions
Environmental compliance violations	Data privacy and risk management	Executive remuneration

30+ factors are included in the Scorecard. Each relevant factor has an equal weight in the average Environmental, Social, Governmental, and Company ESG Scores

$^{x}/_{1}$	$^{x}/_{1}$	$^{x}/_{1}$

+

COMPANY ESG SCORE

$^{x}/_{3}$

Opportunities related to companies scoring ≤ 1 at the time of initial investment consideration are not pursued

[1] The criteria listed for each subsection of the scorecard are not exhaustive.

4 Select Deals Declined on ESG Grounds (Jan-24 to Dec-24)

ESG restrictions and considerations are deeply embedded in EDL's initial investment screening. Our sector exclusions and aversion to businesses that potentially carry reputational risks steer us towards companies with positive ESG profiles. Below, we have listed some examples of investment opportunities that we declined at the outset due to ESG concerns.

	COMPANY OVERVIEW	GROUNDS FOR DECLINE
Company A	UK-headquartered specialty polymer and fibre producer for high-performance applications in motorsport, commercial aerospace, and luxury supercars	The investment team found that the company's polymers could be used in military applications, particularly weapon-carrying drones and manned aircrafts. All forms of weaponry are prohibited by the Fund's ESG Framework.
Company B	UK-headquartered technology-driven CDMO specialising in lipids and small molecule products for pharmaceutical products, as well as soft gels, bottling, and other finished-form dosage services	When examining the company's supply chain, the investment team identified a strong dependency on fish oil. The production is fish oil is increasingly criticised as having detrimental effects on biodiversity, ecology, and food security
Company C	Netherlands-headquartered care and transportation company, providing comprehensive care and logistical support for individuals with special needs and elderly people	The investment team perceived that the potential for quality-of-care deficits to be too high, given the vulnerability of the individuals under the company's care. Companies in similar sectors have experienced serious reputational and commercial consequences as a result of quality-of-care issues
Company D	UK-headquartered mobility platform connecting driver subscribers to consumer, corporate, and public sector transport jobs	Similar to other companies in the sector, the business had unresolved and ongoing pension and working conditions disputes with drivers, which could have resulted in reputational damage and repercussions
Company E	France-headquartered ingredient manufacturer for the on-trade channel to coffee shops, bars, and food establishments	The investment team found that the company generated a small proportion of revenue from distributing (not producing) alcoholic products alongside its food ingredient offering. Whilst the Fund can typically invest in alcohol-related businesses, the Investment Team was not comfortable with this exposure.
Company F	France-headquartered engineering company focused on machining alloys and mechanical components for use in harsh environments	Amongst other sectors, the company specialised in safety parts for the oil, gas, petrochemical, and nuclear industries. Whilst the Fund can invest in businesses that serve the fossil fuel and nuclear sectors, we ultimately were not comfortable with this level of exposure
Company G	Belgian gaming company developing software for casinos and sports betting	Concerns around the gambling sector and social repercussions of problemed gambling

5 EDL Fund – Portfolio Overview

SITECORE

Company Name	Sitecore
Headquarters	Denmark
Financial Sponsor	EQT
Industry	Content Management Software
Date of Investment	November 2023 (€50MM) December 2024 (+€50MM)
Currency	EUR
Instrument	Senior Loan
MSPC Commitment	€100MM

ESG RATING AT CLOSING
2.51

2025 ESG RATING
2.49

BUSINESS DESCRIPTION

Sitecore is a provider of enterprise-grade digital experience management software across the Americas (56% of revenue), EMEA (32%) and APAC (12%). Its software enables users to create and optimize customer experiences across their websites, apps, emails, and social media. Sitecore benefits from (i) a position as one of the leading providers of end-to-end digital experience software globally, (ii) significant market growth and white space, (iii) a diverse and growing customer base exhibiting strong retention rates, and (iv) a recurring subscription-based revenue model.

ESG FINDINGS

Overall, Sitecore was found to exhibit a strong and embedded focus on ESG through a combination of outside-in due diligence and an array of commercial due diligence reports. Its approach is enshrined in a new ESG Programme that was developed jointly between the company, the sponsor (EQT), and an ESG-specialist consultancy. The business has adopted ambitious ESG targets, including:

- Goals to become 100% carbon neutral, reduce energy consumption by 20%, reduce water usage by 25%, and divert 50% of waste to sustainable recycling.
- Goals to have 45% of management positions and 50% of internships held be women and deepen existing partnerships with Plan International and United Nations bodies focused on gender equality.

Governance was a key focus of the deal team's ESG diligence. Sitecore was found to have a strong and well-documented data privacy, supplier management, and broader governance framework. Given the business's focus on large enterprise customers, it has also introduced stringent KYC and onboarding protocols. Its areas for improvement include progress on reporting carbon emissions from its data centres, working towards the diversity and environmental targets above, and potentially linking executive remuneration to successfully fulfilling ESG initiatives.

isms.online

Company Name	ISMS
Headquarters	United Kingdom
Financial Sponsor	ECI Partners
Industry	Software
Date of Investment	January 2024
Currency	GBP
Instrument	Senior Loan and CAF
MSPC Commitment	€51MM

ESG RATING AT CLOSING
1.55 / 3

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES
0.25 / 0.67 / 0.43

BUSINESS DESCRIPTION

Headquartered in the UK, ISMS.online ("ISMS") is a SaaS-based workflow management software company which supports a broad range of customers, from SMEs to large blue-chip firms such as Rolls Royce, in improving their information security compliance. Specifically, ISMS's online digital platform enables clients to obtain and maintain ISO accreditations related to cybersecurity and information security (particularly ISO-27001 and SOC2). The business exhibits key credit qualities including strong annual recurring revenue growth (c.30% p.a.), rapid market expansion, a compelling value proposition for customers, a SaaS-native revenue model, and positive retention and unit economic metrics.

ESG FINDINGS

Despite being a relatively small business with a limited focus on ESG historically, the Investment Team found that ISMS exhibits several key positive ESG qualities. On environmental criteria, its position as a software business means that it inherently has limited exposure to hazardous materials and waste and has a limited impact on biodiversity. On social criteria, the company has incorporated guidelines to mitigate modern slavery risks including checking that suppliers have modern slavery statements and is well-advanced on tracking employee diversity and implementing a formal diversity policy. Concerning governance, the business retains several key policy documents (e.g., a code of conduct, equal opportunities policy, dignity at work policy) and has a whistleblowing mechanism in place as well. Given its software focus, the company takes an active approach to data privacy and cyber risk management, providing information security training to all staff and holding various information security accreditations.

Areas for improvement:

- ISMS does not currently track Scope 1 and 2 carbon emissions. Whilst the deal team understands that the business is not particularly energy consumptive, we would expect the sponsor to implement emissions measurement over its ownership period.
- The company does not currently link executive remuneration to ESG targets. Whilst unsurprising for a company of this scale, this could help bring more focus to ESG considerations.
- ISMS management indicated that several ESG matters would be addressed in the year following the transaction including employee health and wellbeing programmes, performing an employee survey, conducting community outreach, devising a formal ESG policy, and engaging ESG consultants.

CTAIMA

Company Name	CTAIMA
Headquarters	Spain
Financial Sponsor	Hg Capital
Industry	Tech-Enabled Services
Date of Investment	August 2024
Currency	EUR
Instrument	Senior Loan, CAF, and Bridge RCF
MSPC Commitment	€25MM

ESG RATING AT CLOSING
1.06 / 3

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES
0.25 / 0.38 / 0.36

BUSINESS DESCRIPTION

Founded in 2003 and headquartered in Tarragona, CTAIMA is a contractor management software and compliance services provider with over 1,200 hiring clients and over 115k contractors. The Company's cloud-based platform allows customers to identify relevant contractors in specific locales, onboard and verify contractors including document verification/storage, monitor for incident reporting, and manage contractor payments. It exhibits several key credit strengths including strong and consistent topline growth of +24% p.a. since 2003, sticky customer base with limited churn of c.3% p.a., a fast-growing underlying market, and dominant market positioning in Spain.

ESG FINDINGS

CTAIMA is relatively nascent on its ESG transition journey given that it was only recently acquired by professional investors from founder ownership. Nevertheless, we believe that the business exhibits key, foundational governance features including a confidential whistleblowing mechanism, global compliance functions, and regular board meetings. The company also exhibits good employee management policies, tracking employee diversity statistics, maintaining health and wellbeing programmes, and surveying employees regularly. Moreover, the owner of CTAIMA, Hg Capital, has a thorough and well-documented ESG framework and toolkit that they seek to apply to their portfolio companies as a value creation and risk minimisation strategy. The investment team is confident that Hg will, amongst other factors, prioritise ESG under their ownership.

Areas for improvement:

- CTAIMA does not currently track several environmental metrics, particularly scope 1 and 2 carbon emissions, and does not have a policy/strategy for reducing its greenhouse gas emissions. We expect this to change over Hg's ownership.
- The company does not have a formal ESG policy to codify goals. Again, we expect this to change under Hg's ownership as the business professionalises further.
- CTAIMA does not have an ESG escalation procedure to management or the board of directors to raise ESG issues and violations.

Quantios

Company Name	Quantios
Headquarters	United Kingdom
Financial Sponsor	Hg Capital and EQT
Industry	GRC Software
Date of Investment	December 2024
Currency	GBP
Instrument	Senior Loan and CAF
MSPC Commitment	€51MM

ESG RATING AT CLOSING
2.57 / 3

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES
1.00 / 1.00 / 0.57

BUSINESS DESCRIPTION

Quantios is a provider of entity management and ERP software solutions mainly in trust and corporate services. The Company offers a variety of functionality ranging from entity management, tax, regulatory, client management, and other workflow solutions. Quantios is forecast to generate FY24F revenue and EBITDA of £46.5MM and £18.3MM respectively (39% EBITDA margin).

ESG FINDINGS

Although Quantios is a relatively small business, we found that the company has had a strong focus on ESG historically and exhibits various key positive ESG qualities. On environmental criteria and as a software business, Quantios has limited exposure to hazardous materials and waste. Still, the company is maintaining recycling, waste and energy efficiency programs to monitor its carbon footprint. On social criteria, Quantios has implemented multiple policies to remain socially responsible. It incorporates guidelines to mitigate modern slavery risks such as extensive review of suppliers and partners and multiple programs to ensure employee wellbeing. On governance front, the company retains various key code of conduct documents (such as anti-discrimination and employee rights) and has mechanisms in place for whistleblowing and escalation of unethical or illegal practises and violations. Furthermore, the sponsors, Hg Capital and EQT, have well-documented ESG policies.

Areas for improvement:

- Quantios does not currently link executive remuneration to ESG targets. While this is expected for a smaller-scale company, linking remuneration could further improve its ESG practises.
- The company currently has no board members from either racial or other minority groups such as LGBTQ+. We note that the company is already planning to engage ESG consultants and achieve a greater diversity within board members in 2025 of which 14% are already female members.
- Quantios has not conducted third-party environment reports. Nevertheless, given the limited exposure to environmental issues, this is unsurprising but could further improve its position.

Diapason

Company Name	Diapason
Headquarters	France
Financial Sponsor	PSG Equity, Seven2 (minority)
Industry	Financial Services Software
Date of Investment	January 2024
Currency	EUR
Instrument	Senior Loan and CAF
MSPC Commitment	€45MM

ESG RATING AT CLOSING

1.71 / 3

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES

0.83 / 0.40 / 0.64

BUSINESS DESCRIPTION

Founded in 2009, Diapason is a specialised provider of treasury management software, predominantly to the large enterprise market segment. Its solutions simplify and optimise cash management, automate payments, and help to manage the risks associated with treasury products. Diapason serves 35% of the largest 40 listed French companies (CAC 40) and 22% of the SBF 120 corporates, offering solutions to more than 10,000 users in over 50 countries.

ESG FINDINGS

Diapason, while being a relatively small business, has an increasing focus on adopting stronger ESG practices. For instance, Diapason has ESG-related policies in place, according to which they track carbon emissions from scope 1 to 3 and ensure fair labour practices within the company. They also have several policy documents, such as a Code of Conduct, flexible working policy, and IT policy, and has a whistleblowing mechanism in place. There are also policies in place relating to cybersecurity and running adequate employee trainings.

Areas for improvement:

- Diapason could focus on obtaining further sustainability certifications and policies to strengthen its internal processes.
- Diapason would benefit from implementing more employee initiatives, such as D&I policies, charity program partnerships, or community outreach.
- Diapason is not a member of ESG standards or industry groups, which could increase Diapason's overall commitment towards ESG.

eres.

Company Name	Eres Gestion
Headquarters	France
Financial Sponsor	Eurazeo
Industry	Financial Services
Date of Investment	July 2024
Currency	EUR
Instrument	Senior Loan, CAF, and PIK
MSPC Commitment	€120MM

ESG RATING AT CLOSING
1.30 / 3

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES
0.33 / 0.57 / 0.36

BUSINESS DESCRIPTION

Founded in 2005 in Paris, France, Eres is a leading wholesale broker and manager providing advisory and investment services to companies (with a focus on SMEs) in the field of employee profit sharing (80% of AuM) and retirement plans (20% of AuM) in France. Eres operates through the value chain across design, implementation, distribution and management. Eres handles c.€6.8Bn AuM (total group) across 35k+ corporate clients on behalf of 300k+ beneficiaries.

ESG FINDINGS

Eres Gestion's ESG practices are standard at the company level: a formal internal ESG policy is in place, under which they have implemented social initiatives such as the Eres Foundation and community outreach programs. In addition to that, Eres is a signatory of the UN-PRI.

As a wholesale broker and manager, Eres has set ESG priorities since 2009 and developed a range of sustainable funds and a sustainable investing policy. The company has also set up dedicated sustainable funds in partnership with reputable institutions, including one fund focused on environmental matters.

Finally, the sponsor, Eurazeo, has a dedicated team to assist their portfolio companies' ESG transition, and we therefore expect Eurazeo's ownership to generate significant progress for Eres' ESG trajectory.

Areas for improvement:

- Eres does not have a decarbonisation strategy with defined targets. We would expect this to be an area of focus for the company as it is part of our ongoing discussions with the sponsor about ESG KPIs.
- Eres does not have a formal Code of Conduct or D&I policy, which could be expected for a company of this size. The deal team is also addressing this in discussions with the sponsor around ESG KPIs.
- The sponsor is also aiming to link management remuneration to ESG progress.

Company Name	ENSO Groupe
Headquarters	France
Financial Sponsor	PSG Equity
Industry	Diversified Software
Date of Investment	September 2024
Currency	EUR
Instrument	Senior Loan and CAF
MSPC Commitment	€40MM

ESG RATING AT CLOSING

1.29 / 3

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES

0.75 / 0.38 / 0.29

BUSINESS DESCRIPTION

ENSO Groupe is a specialist provider of ERP, document management and applicant tracking solutions for temporary staffing agencies across France, serving c.3,300 agencies and 900k interim workers. ENSO's core on-prem and cloud-based middle and back-office functionalities include bespoke contract generation, temporary staff payroll, invoicing, and other ERP add-ons. The latter enable temporary staffing agencies to operate within a complex environment.

ESG FINDINGS

ENSO Groupe is at the beginning of its ESG transition, although the group proactively started to progress on ESG matters prior to its acquisition by PSG Equity. In particular, the company policies in place for human resource planning such as employee health and wellbeing programs, and a corporate governance policy. They also are putting a formalised ESG policy in place. The sponsor, PSG Equity, has a "100-day" plan with ESG priorities to assist ENSO on its ESG practices, which will help the company to adopt best practices.

Areas for improvement:

- ENSO does not currently link management remuneration to ESG targets, which could be a positive step towards better implementation of ESG-friendly policies.
- ENSO does not track employee satisfaction, diversity KPIs, or employee net promotion scores. While this is not surprising given the size of the company, this could help ENSO recruit and demonstrate its employment credentials as it grows over the next few years.
- ENSO does not have Code of Conduct documents at this stage, although management has indicated that it would be implemented over the course of this year.

ORCA

Company Name	ORCA
Headquarters	Germany
Financial Sponsor	LEA Partners
Industry	GRC Software
Date of Investment	August 2024
Currency	EUR
Instrument	Senior Loan and CAF
MSPC Commitment	€75MM

ESG RATING AT CLOSING

1.13

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES

0.29 / 0.45 / 0.36

BUSINESS DESCRIPTION

ORCA & AEC Group is a specialist provider of software solutions for architects, engineers and building planners across Germany and Austria. The Group's product suite comprises point-based solutions for tendering, computer-aided design, project management, as well as personnel and building documentation.

The Group serves a diverse base of c.14.7k customers covering all commercial requirements across the building lifecycle phases, from planning to building and maintenance. The financial profile exhibits a high proportion of recurring revenues (75%), underpinned by strong customer retention metrics (>100% net revenue retention).

ESG FINDINGS

ORCA & AEC is in the early innings of its ESG journey. However, given the nature of its business, the group does not carry significant ESG risks. The company has implemented a range of positive governance frameworks such as a code of conduct and confidential whistleblowing mechanisms. Furthermore, the group provides training and development opportunities for employees and maintains employee health and wellbeing programs.

Areas for improvement:

- The company has no formal ESG policy in place.
- Executive remuneration is not currently linked to ESG targets.
- The company does not currently track its carbon emissions.

USU

Company Name	USU
Headquarters	Germany
Financial Sponsor	Thoma Bravo
Industry	IT Services
Date of Investment	December 2024
Currency	EUR
Instrument	Senior Loan and CAF
MSPC Commitment	€70MM

ESG RATING AT CLOSING
2.25

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES
0.75 / 0.82 / 0.69

BUSINESS DESCRIPTION

Founded in 1997, USU GmbH is a German headquartered provider of service management software and related services focused on mid to upper mid-market corporates and enterprise clients as well as public authorities. The company focuses on clients with medium-to-high complexity requirements for IT Services Management predominantly in the DACH region.

USU's offering covers the entire service workflow in IT and customer services, including IT Service Management (40% of FY23 revenue), IT Asset Management (36%), Knowledge Management (12%) and IT Operations Management (12%).

ESG FINDINGS

USU is at the early stages of its ESG journey. Given the nature of its business, the group does not carry significant ESG risks. The Company has a range of positive governance frameworks such as, amongst others, a code of conduct, diversity and inclusion, and a health and safety policy. Furthermore, the group maintains employee health and wellbeing programs and provides training and development programmes for employees.

Areas for improvement:

- The company has no formal ESG policy in place.
- Executive remuneration is not currently linked to ESG targets.
- The company does not currently track its Scope 1, 2 and 3 carbon emissions.

Company Name	Balt
Headquarters	France
Financial Sponsor	Bridgepoint
Industry	Medical Equipment
Date of Investment	December 2024
Currency	EUR
Instrument	Senior Loan, CAF, and RCF
MSPC Commitment	€50MM

ESG RATING AT CLOSING

1.82

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES

0.33 / 0.67 / 0.71

BUSINESS DESCRIPTION

Balt is a neurointerventional company which develops and manufactures medical devices to treat a wide range of neurovascular diseases including strokes and aneurysms. Founded as a family-owned small-scale R&D business in 1977 in Montmorency, France, the Company has grown to €270MM of revenues as of 2024. Revenues are generated through direct sales to c.1.2k customers (c.70% FY24B revenues) and to a lesser extent through distribution partners (30%). Balt has experienced uninterrupted revenue growth of c.20% CAGR over FY18-23 which is primarily attributable to expansion into the U.S. and increasing share of direct sales.

ESG FINDINGS

We found that Balt exhibits exhibits a good focus on ESG. Balt's approach to ESG is enshrined in a formal ESG Policy, with progress underpinned by an ESG margin ratchet in the Facilities Agreement with key KPIs to be agreed in the coming months. On environmental criteria, Balt maintains recycling and wate efficiency programmes across their facilities and regularly tracks carbon emissions, working towards CSRD compliance in 2025. The business performs well on numerous social criteria particularly amongst community outreach, promoting stroke awareness and providing medical devices to treat such amongst other diseases. Balt has a strong focus on governance and is bound to several quality and ethical standards across their product suite and participates in local and global industry associations such as Snitem and MedTech Europe. In addition, Balt continues to make positive strides in improving overall gender quality, surpassing its target to have at least 42% of female managers in 2023.

Areas for improvement:

- Balt is not a formal member of any ESG standards or industry groups (e.g. UN PRI, B-Corp, etc.), which would be beneficial in solidifying its overarching commitment to ESG.
- Whilst Balt actively promotes gender diversity initiatives, its Board composition falls short of recent strides at management level, with women representing 14% of the Board.
- Executive renumeration was not linked to ESG targets. This could be a useful tool to help incentivise and align management interests to Balt's targets.

access

Company Name	Access
Headquarters	United Kingdom
Financial Sponsor	Hg Capital and TA Associates
Industry	Diversified Software
Date of Investment	January 2024
Currency	GBP
Instrument	Delayed Draw Term Loan
MSPC Commitment	£50MM

ESG RATING AT CLOSING

2.43

ENVIRONMENTAL / SOCIAL / GOVERNANCE SCORES

0.88 / 0.87 / 0.71

BUSINESS DESCRIPTION

Access Group is a leading provider of embedded enterprise software solutions, serving >75k customers in the UK and Australia. The core product offering is split across horizontal and vertical solutions. Horizontal solutions include financial management, human capital management, compliance and digital learning software. Vertical solutions are provided for the health and social care, not-for-profit, education, legal, recruitment and hospitality.

ESG FINDINGS

Access Group is increasingly focused on ESG, having appointed a Director of Sustainability in January 2024. The company has built on its previously existing CSR policy and widened its ESG programme, as also evidenced by the recently set ESG targets under the Facilities Agreement (see ESG Margin Ratchets section below). The group has a target to be Net Zero by 2050 and has committed to setting near-term science-based targets which are in alignment with the Paris Accord.

Areas for improvement:

- At the time of underwrite, management remuneration was not linked to ESG targets.
- Access, at the time of underwrite, did not partner with any diversity and inclusion focused organisations.

Portfolio RepRisk Summary

To avoid providing financing to companies with serious historic or ongoing ESG issues, we use RepRisk[1] to conduct a preliminary screening of all potential investments to understand any company-specific and sector-specific risks. RepRisk is an AI-powered platform that combs global news and media sources to identify any negative ESG-related coverage associated with a company.

As the table below shows, RepRisk has not downgraded the scores of any of EDL's investments since closing, indicating that serious negative ESG incidents were not reported for our portfolio companies.

COMPANY	REPRISK INDEX (AT CLOSING)[1]	REPRISK INDEX (DEC-24)[1]	REPRISK RATING (AT CLOSING)[2]	REPRISK RATING (DEC-24)
Sitecore	0.00	0.00	AAA	AAA
ISMS	0.00	0.00	AA	AA
Diapason	0.00	0.00	A	AA
Eres	0.00	0.00	A	AA
Access	0.00	0.00	AA	AA
CTAIMA	0.00	0.00	A	A
ENSO	0.00	0.00	AA	AA
ORCA	0.00	0.00	AA	AA
USU	0.00	0.00	AA	AA
Bait	0.00	0.00	A	A
Quantios	0.00	0.00	AA	AA

[1] The RepRisk Index (RRI) is a proprietary algorithm developed by RepRisk that dynamically captures and quantifies a company's or project's reputational risk exposure to ESG issues. The RRI facilitates an initial assessment of the ESG risks associated with investments or business relationships, allows the comparison of a company's exposure with that of its peers, and helps track risk trends over time. 0-25 generally denotes low risk exposure, 26-49 denotes medium risk exposure, 50-59 denotes high risk exposure, and 60-100 denotes very high/extremely high-risk exposure.

[2] The RepRisk Rating (RRR) is a letter rating (AAA to D) that facilitates corporate benchmarking against a peer group and the sector, as well as integration of ESG and business conduct risks into business processes. The Rating provides decision support in risk management, compliance, investment management, and supplier risk assessment. In contrast to the RepRisk Index (RRI), the RepRisk Rating depends not only on a company's own performance (i.e., on its own risk incidents) but also on its country and sector affiliations.

Portfolio SASB Summary

In addition to RepRisk, the Investment Team also uses the SASB Materiality Finder to guide its ESG diligence. This SASB tool indicates potential areas of improvement for companies by sector and therefore assists in highlighting the topics the Investment Team covers with management and private equity sponsor. Below, the SASB mapping of our portfolio is laid out.

	ENVIRONMENT	SOCIAL CAPITAL					HUMAN CAPITAL BUSINESS MODEL AND INNOVATION			LEADERSHIP GOVERNANCE		
COMPANY	Energy Management	Customer Privacy	Data Security	Selling Practices and Product Labelling	Access and Affordability	Product Quality and Safety	Employee Engagement and D&I	Product Design and Lifecycle Management	Supply Chain Management	Competitive Behavior	Business Ethics	Systemic Risk Management
Diapason	■	■	■	■			■			■		■
Eres				■			■	■	■		■	
Access	■	■	■	■			■			■		■
CTAMA			■	■			■				■	
ENSO			■	■			■				■	
ORCA	■	■	■	■			■			■		■
Bait				■	■	■		■	■		■	
Quantios	■	■	■	■			■			■		■
Sitecore	■	■	■	■			■			■		■
ISMS	■	■	■	■			■			■		■
USU	■	■	■	■			■			■		■

ESG-linked Margin Ratchets

COMPANY	ESG-LINKED MARGIN RATCHET DYNAMICS
Diapason	An ESG-linked ratchet construct is included in the loan documentation. The ratchet is bidirectional with +5bps applied if sustainability targets are not set, but -5bps for each KPI successfully achieved. KPIs are as follows: ▪ Have 1/2/3 sustainability certifications in place by FY25/FY26/FY27 and thereafter. Sustainability certifications being either (i) ISO27001, (ii) Ecovadis, (iii) Qualiopi, or (iv) Carbon Footprint certification ▪ Have 1/2/3 sustainability policies in place by FY25/FY26/FY27 and thereafter. Sustainability policies being either an (i) Advanced Whistleblowing Policy, (ii) Code of Ethics, (iii) Gender Diversity Policy, or (iv) Modern Slavery Policy ▪ Have 10%/20%/30% of employees involved in an annual community, pro-bono, charitable or outreach programme in each of FY25/FY26/FY27 and thereafter
Eres	An ESG-linked ratchet construct is included in the loan documentation. The ratchet applies -5bps for each KPI successfully achieved. ESG KPIs are to be determined in due course with the company and sponsor
Access	Access is eligible for a 5bps reduction in margin if both of the following conditions are met by the end of 2025: (i) a reduction in scope 1 and scope 2 emissions in accordance with the company's science-based targets and (ii) ensuring that a specific proportion of employees have undertaken Code of Conduct trainings
CTAIMA	An ESG-linked ratchet construct is included in the loan documentation, with a 7.5bps margin reduction awarded for achievement on one or more KPIs. ESG KPIs are to be determined in due course with the company and sponsor
ENSO	An ESG-linked ratchet construct is included in the loan documentation. The ratchet is bidirectional with +5bps applied if sustainability targets are not set, but -5bps for each KPI successfully achieved. ESG KPIs are to be determined in due course with the company and sponsor
ORCA	An ESG-linked ratchet construct is included in the loan documentation, with a 10bps margin reduction awarded for achievement on one or more KPIs. ESG KPIs are to be determined in due course with the company and sponsor
Balt	An ESG-linked ratchet construct is included in the loan documentation, with a potential reduction of 15bps on margin for ESG progress. ESG KPIs are to be determined in due course with the company and sponsor
Quantios	An ESG-linked ratchet construct is included in the loan documentation. ESG KPIs are to be determined in due course with the company and sponsor, with a 7.5-12bps margin reduction awarded for progress (construct TBD)
Sitecore	No ESG-linked margin ratchet
ISMS	No ESG-linked margin ratchet
USU	No ESG-linked margin ratchet

6 Looking Ahead

We strongly believe that integrating ESG practices enhances the credit quality of our broader portfolio by highlighting forward-thinking and prudent management teams and private equity sponsors. Throughout 2025, we will seek to execute on and further enhance our ESG philosophy.

In particular, we look forward to the Fund's first annual ESG re-scoring of its investments, to identify areas where the Fund's portfolio companies have made progress and where they need further support. Our detailed, proprietary ESG Scorecard allows us to track ESG performance at a granular level from the point of investment until exit. We view this as part of our evidence-based and proactive approach to ESG monitoring.

In addition, as the companies in the Fund's portfolio mature, they may begin to work on achieving ESG-related targets linked to margin ratchets set out in loan documentation. We look forward to tracking the potential progress on sustainability-linked factors that the Fund's companies may make.

Further expand the MS EDL team ESG acumen and expertise

Empower portfolio companies with additional support to advance their ESG programs

Collaborate and share best ESG practices across MSIM and the Firm

Strengthen the portfolio ESG metric assessment, tracking and reporting framework

Stay abreast of ESG industry developments and methodologies to improve current processes

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