Blackstone Credit

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Harnessing Credit

Driving the Energy Transition to Create Value

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BXC is focused on providing private credit capital to finance the energy transition

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BXC believes ESG financing can be a value-creation tool in the energy transition

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Focus on value creation by incentivizing ESG-related targets in portfolio companies

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Energy transition is a major theme across Blackstone's integrated ESG approach

Blackstone believes that Environmental, Social and Governance ("ESG") principles are crucial to developing strong and resilient companies and assets that deliver long-term value for our investors. Our approach is grounded in a responsibility to our investors to be careful stewards of capital. We have long been implementing a number of initiatives designed to make our companies stronger and more resilient. While ESG is a vast and growing field, we have chosen to prioritize decarbonization, diversity and good governance.

With respect to decarbonization, reducing greenhouse emissions will require significant capital. Companies at the forefront of this global energy transition are expected to tap credit to fund part of the $100 trillion of investment required to decarbonize the planet.[1] The increased focus on private credit as a funding source for the energy transition means it is expected to play a meaningful role within this private investment universe. That mindset has shifted with the realization that equity and commercial bank debt together are likely insufficient to fill demand for renewable energy, and that private credit will be an important core component to fill the gap.

This creates an exciting opportunity for Blackstone Credit ("BXC"), one of the world's largest providers of private credit in the energy transition marketplace, to help fund the energy transition. We believe the large capital needs, growth and transformation required by the energy transition present among the most attractive investment opportunities in credit today. We launched our Sustainable Resources Platform at the start of 2022, to invest in and lend to renewable energy companies and those that we believe are supporting the energy transition.

We can use our scale and expertise to help strengthen our companies, assets and the communities in which they operate. This includes offering ESG financing tools as an option to certain companies across our portfolio to effect change and mitigate sustainability risks by improving their ESG profile.

"We're living in a "green rush": Between 2020 and 2021 the global sustainable fund universe expanded by 53%, indicating intense investor appetite for index-tracking sustainable vehicles. However, decarbonizing the world more broadly will require active management and concrete, ambitious decarbonization KPIs. Private market investors can play a significant role in accelerating the energy transition in partnership with portfolio companies."

— Jean Rogers, Global Head of ESG, Blackstone

Using Private Credit to Fund the Energy Transition

When it comes to decarbonizing, we believe net zero cannot be achieved simply by funding renewable energy. We look to invest in companies across the energy transition value chain and, where appropriate, engage with them on tools to change their carbon footprint over time and mitigate related sustainability risks.

Through active engagement with the management teams of the private credit portfolio companies with which we partner, we seek to help them to improve their ESG practices and build resilient companies.

To facilitate this engagement with our portfolio companies, we have significantly expanded our ESG resources and capabilities with key hires. Among them, Dr. Jean Rogers joined in January 2022 as Global Head of ESG to oversee Blackstone's corporate ESG team, leading strategy, integration, reporting and engagement.

Our Blackstone Credit ESG Working Group includes senior professionals from across Blackstone Credit ("BXC"), including Rita Mangalick, Global Head of ESG for BXC, Rob Horn, Head of BXC's Sustainable Resources Platform, and Marisa Beeney, General Counsel of BXC. The Working Group drives BXC's ESG strategy and policy.

Our Blackstone Credit Advantage Team is also instrumental in working with our portfolio companies to identify ESG opportunities and implement plans, while sharing guidance and knowledge. We have created proprietary ESG resources that we are sharing with companies, including a Guide to Implement an ESG Policy and a Carbon Accounting Program Playbook.

Across Blackstone Credit engagement generally starts with identifying ESG risks within select portfolio companies during the due diligence phase. It continues throughout our investment period through value-driven initiatives related to Blackstone's core ESG themes of decarbonization, diversity, and good governance.

Our portfolio companies can access the deep pool of Blackstone ESG resources and training to enable them to manage those risks effectively, understand reporting best practices and formally report on ESG to their boards.

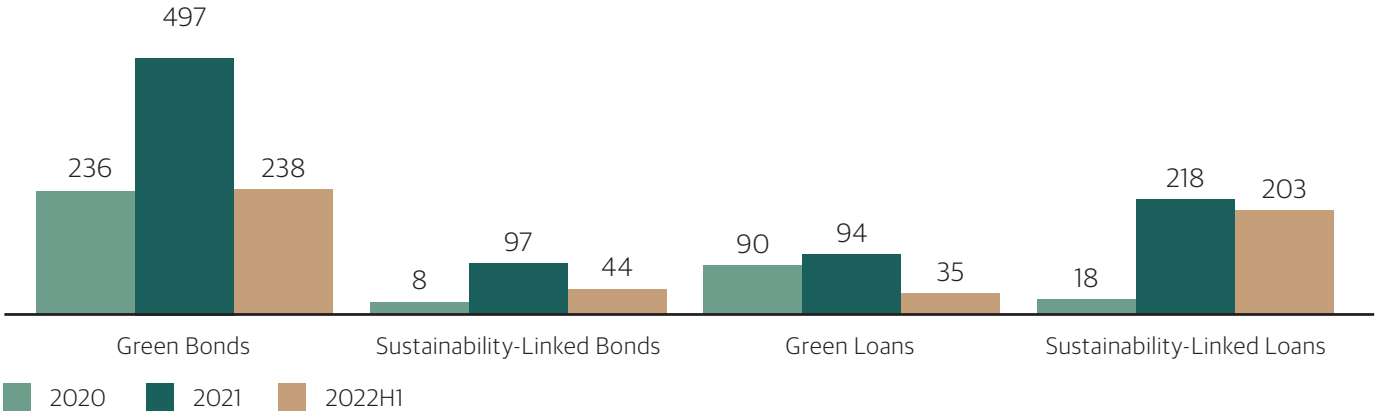
"Our portfolio companies don't want to decarbonize at any cost; they need to do it in the most value accretive way and end up not just lower-carbon, but also more competitive."

— Jean Rogers, Global Head of ESG, Blackstone

ESG Financing as a Valuable Tool

BXC believes that smart financing tools such as sustainability-linked loans ("SLLs") and green bonds represent a compelling investment opportunity. As an optional alternative to standard loans, BXC offers SLLs to certain borrowers. These instruments have grown rapidly in the European leveraged loan and high yield markets in recent years, although have still to embed themselves more widely in the US. In 2021 nearly a fifth of all European high yield and loan issuance included pricing mechanisms connected to key performance indicators ("KPIs") linked to ESG criteria.[4]

Global Green and Sustainability-Linked Bond and Loan Issuance[5]
($ in billions)



When used appropriately, we believe that sustainability-linked loans can help in the energy transition by incentivizing companies to make material progress on specific ESG metrics and holding them accountable for improving their sustainability performance.[i]

Using a margin ratchet, sustainability-linked loans tie the borrower's sustainability performance to the interest paid on a loan issued to finance the general capital needs of a business. We believe that Blackstone differs from many other private lenders in that we do not just lower interest rates when a company hits their targets; we may also raise them if they fail.

"Sustainability-linked loans can help drive value—not only for the credit holder, but also for equity holders and for the business overall. We recently invested in a building efficiency company and identified three important KPIs: renewable energy procurement, carbon avoidance and workforce diversity. We incorporated these metrics into the pricing of the loan, and our ESG team tracks that annually along with third parties. We've found it to be a great tool both for sustainable companies and companies in various stages of their sustainability journey."

— Robert Horn, Global Head of Sustainable Resources, Blackstone Credit

i. Blackstone investment in any portfolio company is no guarantee of future commercial opportunities for such company, and none of Blackstone, its funds, nor any of their affiliates makes any representation or warranty regarding such opportunities for any portfolio company. There is no assurance that any portfolio companies will participate in the above initiatives or will experience positive results.

We believe that this two-fold approach energizes companies to meet their sustainability goals, which in turn can strengthen them and increase the value they can generate for our investors. Green bonds, meanwhile, are designed so that 100% of proceeds go toward financing or refinancing eligible projects with environmental benefits. This can include projects that help reduce the emissions of the existing energy infrastructure, crucial to decarbonization.

To foster transparency and disclosure and promote integrity across these developing markets, we believe it is vital to seek to align with the Sustainability-Linked Loan Principles established by the Loan Syndication and Trading Association ("LSTA") and International Capital Market Association ("ICMA") when structuring these facilities.

Setting KPIs relevant, core, and material to the borrower's business was a top priority for us given industry and regulatory concerns about greenwashing. The Blackstone Credit ESG team has developed a Sustainability-Linked Loan framework which lays out five principles for our sustainability metrics:

1 Materiality

2 Ambition

3 Incentives

4 Transparency

5 Validation

In practice this means working collaboratively with the borrower to select KPIs that are meaningful and material to the core business. Additionally, this can lead to value creation that supports the borrower's growth, improving credit worthiness. We believe these goals need to be achievable based on the overall sectoral opportunities and limitations. Performance targets must encourage positive change within the business, and the financial incentive/penalty should be sufficient to motivate the borrower, generally via a margin ratchet. In addition, we generally require annual sustainability reporting, and independent third-party verification of performance towards these metrics.

"As an alternative to standard loans that we offer to certain borrowers, we think sustainability-linked loans ("SLLs") are a key tool that credit can use to track and measure value creation in certain transactions. Through our SLL structuring process, we aim to support borrowers in their efforts to drive meaningful improvement within their sustainability strategies, mitigating sustainability risk, and ensuring that the Key Performance Indicators and the Sustainability Performance Targets are appropriate and clearly defined so that all stakeholders' incentives are aligned. In our SLLs, we focus on materiality, ambition, incentives, transparency and validation."

— Rita Mangalick, Global Head of ESG, Blackstone Credit

Strong Commitment

The energy transition is a major investment theme across Blackstone, and the firm seeks to closely integrate ESG across some of its business and investment activities. Blackstone sees an opportunity to invest an estimated $100 billion in energy transition and climate change solutions over the next decade across its businesses.

We strive for a highly coordinated approach, and our dedicated corporate ESG team looks to apply best practices, coordinate firm-wide initiatives, and regularly report to stakeholders where applicable. Ultimately, we believe that a comprehensive ESG program can help drive value and enhance returns for our investors and borrowers.

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End Notes

1. IRENA World Energy Transitions Outlook published March 2021. Reflects the estimated total market opportunity for the energy transition through 2050. NetZero Financing Roadmaps as of November 2021, based on annual decarbonization investment expected from 2021-2030.
2. "Capital committed to date figure represents capital committed (on a levered basis) to Blackstone Credit renewable energy and climate change solution investments since inception through June 30, 2022."
3. A Blackstone investment in any portfolio company is no guarantee of future commercial opportunities for such company, and none of Blackstone, its funds, nor any of their affiliates makes any representation or warranty regarding such opportunities for any portfolio company. There is no assurance that any portfolio companies will participate in the above initiatives or will experience positive results.
4. Leveraged Commentary & Data, *'Sustainability-linked leveraged finance deals face critical test,'* December 2, 2021.
5. Bond data comes from Dealogic, Loan data comes from Bloomberg, August 2022. Data includes Corporates, Sovereigns, Supranationals, Agencies, and Municipals.