Responsible Investment Policy

Capital Four Fondsmæglerselskab A/S

Capital Four AIFM A/S and

Capital Four CLO Management K/S

(jointly referred to as "Capital Four")

CAPITAL
FOUR

Capital Four is an industry-leading credit asset manager for some of the largest pension funds and institutional investors globally. We have a responsibility towards our clients to make informed investment decisions and see it as our duty to strive to identify and assess any risks that may affect the financial performance of our investments.

We believe one of the key factors for the long-term success of Capital Four as a leading investment manager in the global financial market relies on our ability to continue to successfully assess sustainability risks as part of our investment process.

We are committed to responsible investing. We aim to deliver competitive risk-adjusted financial returns to our clients over the long-term, based on an investment approach that is reflective of the significance we attach to operating within the boundaries we deem acceptable for sustainability risks and impacts.

This policy outlines Capital Four's approach to responsible investment (in the following referred to as the "Policy").

Vision

Our view on responsible investing defines the investment universe we operate in. Capital Four focuses on investments that contributes to long-term financial value creation while avoiding investments that we believe has a negative effect on society.

From an investment perspective, we believe responsible investing is relevant for our investors and the longevity of the market as it may create excess financial returns and reduces long-term sustainability risks. Holistically, we believe that responsible investing has long-term benefits for society as a whole.

We appreciate the increasing investor focus on sustainability aspects of investing and we aim to get more information and detailed data on sustainability risks and factors to ensure we continuously improve and move the baseline for what constitutes good research, which in turn will further strengthen our ability to assess sustainability risk linked to investments.

Capital Four's view on responsible investing is reflected in our business conduct and our investment approach is aligned with the UN Principles for Responsible Investment ("UNPRI") and the UN Global Compact ("UNGC").

Investment universe

UNGC principles are anchored in Capital Four's investment universe and we will not invest in companies that we deem either deliberately violate these principles or do not take the necessary actions to remedy any known violation. In general, our approach to responsible investment is not driven by a large set of negative exclusion as we find value in investing in companies on a transitional path. That being said, where an investor has explicit investment restrictions, we will always comply with the limits specific to the individual investor in addition to our ESG approach.

Prior to investing, Capital Four screens all names against EU, UN and OFAC sanction lists.

Processes and Guidelines

Our investment process is driven by bottom-up fundamental research analysis and full integration of sustainability risk and opportunities. Our ESG process includes product and conduct screening, client guideline compliance, our ESG scoring model and inclusion of Principal Adverse Impacts.

Product and conduct screening. Capital Four performs product and conduct screening of every investment to identify if we deem the company to be in breach of ethical norms or part of their revenue is generated from sensitive product or service lines. Our ethical norms are aligned with the UNGC and screening of sensitive products relates to each mandate's restriction list. On this basis investments can be deemed un-investable from a Capital Four perspective. We use external providers for input into this screening process as well as the assessment of our internal research analysts.

Scoring model[1]. An element of our fundamental research analysis is assessment of sustainability risk. We use our own ESG scoring model where we identify and analyse sustainability risks of potential and existing investments. The model is a proprietary model based on input from SASB Materiality Map, Sustainalytics, proprietary industry research and Capital Four analyst knowledge and consists of a range of industry specific scoring models. We score on a scale from 1 to 5, where 1 is the best ESG score. We take off-set in a neutral rating of 3 and up/down-grade the specific sub-scores. In the ESG model we have established sustainability risks as the range of specific factors, we deem material for each industry including:

> **Environmental** risk factors, hereunder actual or potential threat of adverse effect on the natural environment and systems,
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> **Social** risk factors, hereunder the rights and wellbeing of employees, people and communities, and
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> **Governance** factors hereunder the system of rules, practices and process which govern the companies.

These are factors that could directly or indirectly impact the value of the underlying instrument or the long-term financial performance of a company.

When we score a potential investment and rescore existing investments, we assess how the company manages the material ESG risk

[1] All investments follow this model except with respect to securitisations. Capital Four has created a special CLO ESG scoring model for investments in securitisations. We focus on the collateral manager of the underlying asset pool and assess the integration, depth, and quality of how the collateral manager integrates sustainability risk assessments in their investment process, specifically within the screening, investment research, and ongoing monitoring processes. If the securitisation indenture includes ESG-related covenants an assessment of such covenants is included in the overall scoring for the securitisation. Relevant data and information are obtained through our CLO due diligence process.

identified through their level of disclosure. We update our ESG scores on an ongoing basis as new risks occur or diminish, in the same way as we continuously update other risk parameters on an investment (industry dynamics, company specific news, management changes, earnings etc.)

Principal adverse impacts. The principal adverse sustainability impacts of our investments are identified and measured in accordance with the draft regulatory technical standards that lists specific Principal Adverse Impacts ("PAIs") of companies as issued by the ESAs[2]. Capital Four has identified the PAIs we deem relevant for each industry. Each PAI links back into and underpins the material sustainability risks we identify in our ESG scoring. Capital Four considers PAIs prior to taking an investment decision.

The research team uses the ESG scoring model as the framework for assessing the material risk of the underlying investment. Information, key performance indicators (KPIs) and PAI data are collected on companies through various avenues including ESG questionnaires, company disclosure and management presentation in addition to external research and data available.

Data constraints and non-financial disclosure is a current challenge in the industry and Capital Four acknowledges the limitations we may face, especially when it comes to available PAI data. We are reliant on some data from external providers and we are committed to leverage our strong relationship with companies and their owners to obtain the relevant information and further encourage an increased degree of preferable public non-financial disclosure.

The output of the scoring model constitutes our ESG score, which is used a) as a separate indicator of overall ESG for the investment and b) as input to our overall Capital Four score which brings together our assessment of fundamental, quantitative, covenant and ESG factors.

The framework further identifies key risk areas and/or lack of risk mitigators which we could use for further observation, engagement with the companies and in some case establish sustainable KPI targets.

The PAI indicators are calculated on the basis of available and collected PAI, financial and portfolio data.

Our method of integrating sustainability risk and impact assessment combined with a large research team creates a consistent, transparent and comparable method of ESG integration into the investment process and reflects our dedicated commitment to making informed investment-decisions based on transparency. In practice the ESG score, key risk factors and PAI information are incorporated in our credit write-up which is presented and discussed in the security selection meeting for each potential investment assessed.[3]

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[2] JC 2021 03, 2 February 20021, Final Report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088

[3] Capital Four may apply exemptions to this process for investments we are exposed to for a period of less than ten business days. Regardless, we always follow the

ESG in investment decisions

The portfolio managers at Capital Four decide and are responsible for the investments we make. Our investment decisions-making process, which covers investment and divestment, involves several stages of information gathering, research analyses and assessments.

One of the factors the portfolio managers reviews before making an investment decision is the ESG score of a company and information on Principal Adverse Impacts. We do not invest in a company regardless of the potential financial return on the investment if (a) the total ESG score is 4.5 or above or (b) the total score is 4 combined with a sub-score in either E, S or G of 5 . Likewise, PAI data, where available, of an investment is reviewed and portfolio managers will only make the decision to invest if they deem that the PAI of an investment is within what we consider an acceptable threshold.

For investments that already are in our portfolios, sustainability risks and PAIs are reviewed on a regular basis and any new findings are brought to attention of the portfolio managers, who in turn will assess and determine if we need to change the exposure to the investment. As a result of this process our responsible investment approach is directly reflected in the composition of our portfolios.

Engagement

Capital Fours believes that ESG engagement creates value for our investors and companies. Thus, we engage with companies, the industry and with our investors in the following way:

Companies. Capital Four is committed to actively engage with the companies we invest in to improve their public non-financial disclosure. Where we identify the opportunity to have a positive impact, if appropriate, we attempt to shape a company's approach to dealing with a sustainability issue (including potential or planned actions to reduce principal adverse impacts linked to investments in the company). We also enter into a dialogue around setting explicit reward-linked KPI targets such as limits to funding costs of the company to increase incentives.

Industry Engagement. Capital Four is an active participant in a number of industry forums and organisations that focuses on various aspects of sustainability issues directly linked to investments including membership of the ESG committee of the European Leveraged Finance Association (ELFA) and the ESG Integration Network of the CFA Society Denmark.

Investors. Capital Four encourages an open dialogue with investors and typically holds quarterly or annual reviews specifically focused on ESG related issues in the portfolio, as well as internal developments and progress. During these reviews, an in-depth analysis of material ESG issues will be

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processes as set out in our Research Procedure and our Procedure for Portfolio Management.

presented in case studies. Additionally, ESG related reporting is done on an ad-hoc basis.

Commitment to global principles and standards

As evidenced in this Policy, Capital Four is committed to integrating the 10 principles of the UNGC in the way we conduct our own business as well as in our investment process. We are consequently a signatory to the UNGC. We are also a signatory to the UNPRI. In addition to reporting annually, we seek to actively engage with and support both of these organisations. With respect to our control environment, the investment process of Capital Four is assessed annually in an International Standard on Assurance Engagements 3402 (ISAE 3402) report.

Continued education of our employees is fundamental to the progress of Capital Four. We are eager to play an active role in the education and awareness of global ESG initiatives and therefore continuously participate in multiple educational courses and responsible investing-related conferences and webinars. In addition, we conduct internal ESG training for all Capital Four analysts annually and all new hires at Capital Four are given an introduction to responsible investing and sustainability.

ESG Committee

Capital Four has an ESG Committee comprised of professionals from across the organisation (including participants from the following teams: research, client and busines development, legal, the portfolio managers and senior management). The purpose of the ESG Committee is to ensure that Capital Four stays at the forefront of responsible investment practices and developments as they evolve in the different industry work streams and to support Capital Four's internal and external stakeholders.

The ESG Committee meets at a minimum on a quarterly basis to discuss on-going initiatives and strategic developments related to ESG, to review Capital Four's responsible investment strategy and discuss recent feedback from stakeholders. The committee will also meet on an ad-hoc basis to discuss and review investment related ESG issues. When appropriate this is communicated across the organization. The ESG committee is also a support to analysts when accessing ESG elements in a credit and/or engaging with the companies.

Review and approval

This Policy shall be reviewed at least annually, provided that it shall be reviewed and amended from time to time if material changes to the legislation or the Capital Four organisation make this necessary.

Approved by the CEO on 8 March 2021

Sandro Näf, CEO