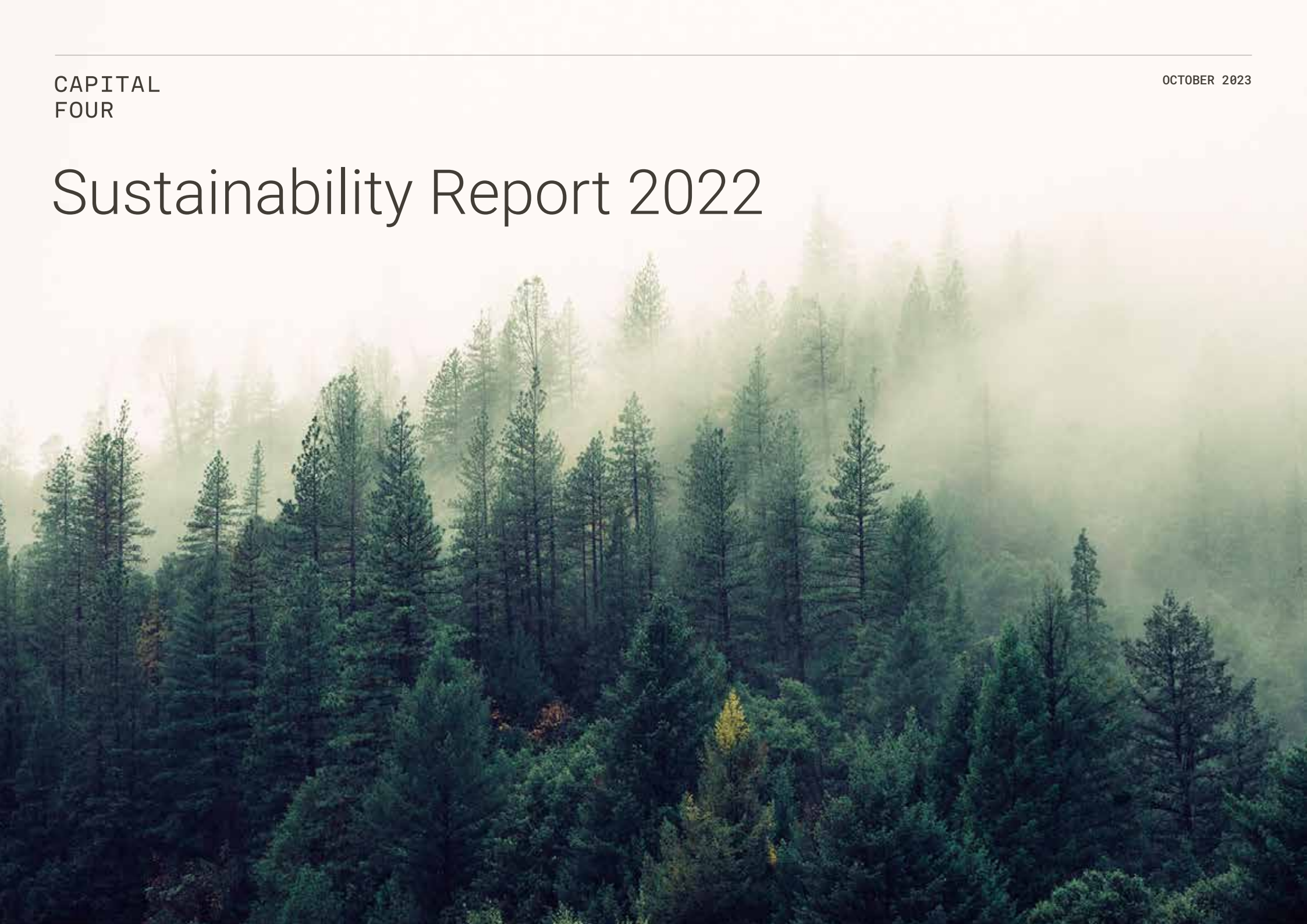


# Sustainability Report 2022



# Table of Contents

<b>Introduction.....</b>	<b>3</b>	<b>Social.....</b>	<b>31</b>
Sustainability Highlights .....	3	Diversity, Equity and Inclusion.....	32
Letter from the Management Team .....	4	Case: Graduate Program .....	33
		Workforce .....	35
<b>General.....</b>	<b>5</b>	Education and Training .....	37
Capital Four at a Glance .....	5	Charitable Giving .....	38
ESG Initiatives Capital Four Supports .....	6		
ESG in the Investment Process .....	7	<b>Governance .....</b>	<b>39</b>
Sustainability Governance .....	8	Governance Framework.....	40
Focus Areas.....	9	Remuneration .....	41
Case: Credit Day .....	11	Risk Management .....	42
		UN Global Compact Progress Report .....	43
<b>Environment.....</b>	<b>12</b>	<b>Appendix.....</b>	<b>44</b>
NZAM: Capital Four Supports Climate Action		Data Methodology.....	45
With Net Zero Initiative .....	13	ESG in the Investment Process .....	46
Incorporating Carbon Footprint Into Credit Analysis .....	14	Data Tables – Capital Four's Corporate Activities .....	51
Investment Strategies.....	16	Data Tables – PAI.....	53
Case: Ahlsell (senior loan).....	19		
Case: ELCEE (private debt).....	22		
Regulatory Sustainability Focus.....	23		
TCFD.....	25		
Case: Scenario Analysis .....	27		
Sustainability of Corporate Activities.....	29		

## About this Report

The data presented for Capital Four's corporate activities, excluding the activities in the US, covers the period from January 1st, 2022, to December 31st, 2022. The financial data in the report was current as of June 2023. This report covers the subsidiaries of Capital Four Holding A/S, excluding Capital Four US INC. The report was produced in collaboration with Position Green, an independent sustainability reporting and advisory firm.

# Sustainability Highlights 2022

## Net Zero supporter

Signatory to the Net Zero Asset Manager (NZAM) initiative



## Policies and Sustainability Report

Published our Engagement Policy and our second Sustainability Report



## Improved PRI scores

Received updated and strong scores from PRI



## Revised Responsible Investment Policy

Includes details about minimum standard requirements in investments in third-party managed vehicles



## TCFD supporter

Started work on TCFD reporting and made the first reporting in 2022



## 100% Carbon Intensity data coverage for bonds and loans

With improved data quality



## Gearing up for ESG regulations

Added two new PAI data provider



## Diversity, Equity and Inclusion

Successful implementation of our Diversity, Equity, and Inclusion (DEI) Policy



## Credit Day

An important topic of Capital Four's whole-day event was the ESG panel discussion titled "ESG: Impact, Data and Integration"



## New financial products

Launch of new Article 8 products promoting environmental characteristics for our bond, loan and multi-asset credit strategies, and promoting environmental and social characteristics for our private debt strategy, and launch of first funds classified as Article 8 products.



## Sustainability linked loans

100% of new Private Debt loan commitments include sustainable KPIs subject to negotiation 12 months past deal close.



## Letter from the Management

# Responsible Investments in Credit Asset Management

2022 marked a significant year for Capital Four in terms of our commitment to responsible investments practices. We made substantial progress in integrating sustainability into our core operations, embodying our dedication to responsible investments.

Most notably, we have become signatories to the Net Zero Asset Manager (NZAM) initiative. This move states our commitment to ensure all asset under management (AUM) reach net zero greenhouse gas (GHG) emissions by 2050. Capital Four is committed to support the ambitions of the Paris Agreement, and we will over time manage a gradually increasing part of our portfolio in line with a net zero investment strategy. We will achieve net zero (GHG) emissions for the entire portfolio by 2050, if not sooner. Capital Four recognizes that this is both a very significant and demanding task that will require much from our team, timely dialogue with our investors, and close collaboration with the great companies we fund with capital. This endeavor necessitates a gradual implementation and adaptation of our investment strategies.

Another highlight of Capital Four's sustainability efforts in 2022 was our work on sustainability risks and adverse impacts that we further developed for our funds and managed accounts in liquid High Yield, Loans, and Multi Asset Credit strategies. Significant work has also been done for our illiquid credit fund related to our Private Debt Senior strategy. In line with the requirements of EU's Sustainable Finance Disclosure Regulation (SFDR), we published our first periodic reporting in the first half of 2023.

On a strategic level, we made strides by strengthening our international presence in Copenhagen, New York, Stockholm, and Frankfurt. We also improved digitalization and process efficiency within our investment organization and launched our graduate program, nurturing fresh talent committed to our sustainability objectives.

In the same spirit, we published our Engagement Policy and our second Sustainability Report, reflecting our ongoing transparency and engagement in sustainable practices. Our efforts were recognized with strong scores from

the Principles for Responsible Investment (PRI), underlining our focus on incorporating environmental, social, and governance (ESG) principles into our investment decisions.

Beyond our sustainability initiatives, 2022 also presented numerous challenges and achievements in other areas. The year was particularly difficult for many investors and the asset management industry due to inflation pressures, which caused a significant rise in interest rates. This led to a decrease in the value of fixed income instruments and negatively affected equity markets. In the face of these challenges, our diversification into a wider range of credit strategies was tested. Capital Four, realizing the need for adaptation, is focused on refining these strategies in our unwavering commitment to enhance future revenues for our investors.

Even with the challenges that arose in 2022, we are confident in our robust cost structure, which empowers us to continue investing in the future of our business and maintaining our strong commitment to sustainability.



**Sandro Näf**  
CEO, Portfolio  
Manager &  
Co-founder



**Torben Skødeberg**  
President, Portfolio  
Manager & Co-founder



# Capital Four at a Glance

Capital Four is an industry-leading credit asset management boutique rooted in Scandinavian culture. Headquartered in Copenhagen, Denmark, with offices in New York, Stockholm and Frankfurt, our team of 120+ professionals manage EUR +15bn on behalf of a global client base.

We offer investment solutions within global high yield bonds, senior loans, structured credit, multi-asset credit, and Nordic and Northern European private debt.

Established

2007

ESG frameworks

PRI, UN Global Compact,  
TCFD and NZAM

Assets under management scored  
using Capital Four's ESG scoring model

100%\*

Employees representing  
21 nationalities

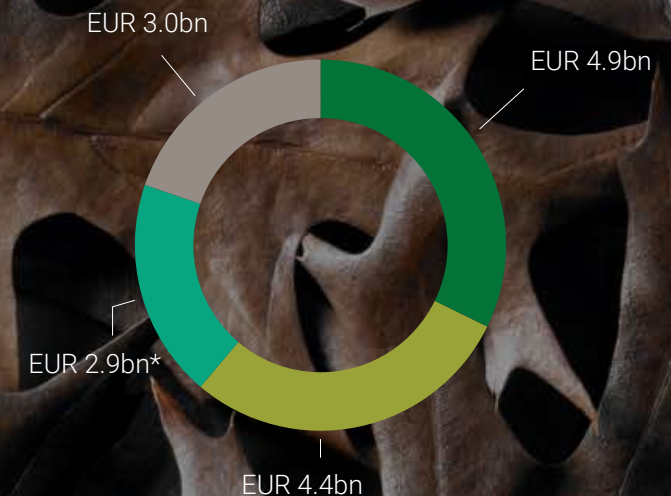
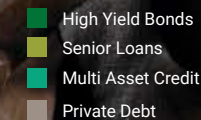
120+

Offices in Copenhagen,  
New York, Frankfurt  
and Stockholm

Manages

EUR +15bn

Assets under management



\* The multi-asset credit category contains structured credit assets valued at EUR 0.2bn by the end of 2022.

# ESG Initiatives Capital Four Supports

## UN Global Compact

2016

UN Global Compact: A United Nations pact to encourage companies worldwide to adopt sustainable and socially responsible policies, and to report on their implementation on the Ten principles of Global Compact.

Capital Four has been a signatory of UN Global Compact since 2016.



## PRI

2019

The world's leading initiative for responsible investment. PRI has defined six Principles for Responsible Investment for incorporating ESG issues into investment practices.

As a signatory of PRI, Capital Four strive to advance our incorporation of ESG into our investment practices, increase disclosure and improve our engagement efforts.

Signatory of:



## TCFD

2021

Stands for the Task Force on Climate-related Financial Disclosures. It is a framework that organizations can use to publicly disclose the climate-related risks and opportunities to their businesses.

Capital Four became a supporter of TCFD in 2022, an initiative we intend to continue and expand upon in the coming years.



## NZAM

2022

The Net Zero Asset Managers (NZAM) initiative launched in December 2020 and aims for the asset management industry to commit to a goal of net zero emissions from investment activities.

Capital Four became a signatory to the NZAM initiative in December 2022, and we will publish our Initial Target Disclosure by December 2023. This step further reinforces our commitment to reducing carbon emissions and contributing to a sustainable global economy.

**NET ZERO ASSET  
MANAGERS  
INITIATIVE**

## Collaborations

2022

Capital Four is a member of the European Leveraged Finance Association (ELFA), where we participate in the ESG Committee and various sub-committees with an ESG focus.

Capital Four is a member of Finansforeningen (CFA Society Denmark), where we actively participate in the ESG Integration Network.





# ESG in the Investment Process

Capital Four’s investment process is driven by a bottom-up fundamental research analysis. This analysis includes the assessment of material environmental, social, and governance factors specific to the industry and company in question.

Our proprietary ESG scoring framework is implemented across all investment portfolios to identify and analyse sustainability risks and opportunities. This framework blends our own analytical models, research, and knowledge, drawing inspiration from various sources, most notably the SASB’s Materiality Map. It also incorporates input from various data and research providers. Our framework aligns with the sustainability risk assessment of the SFDR.

Please refer to the appendix of this report, page 47, for a more detailed explanation of the steps in Capital Four’s investment process and how we integrate ESG. More about ESG in the investment process can be read in this white paper on the topic:


 [Capital Four \(capital-four.com\)](https://capital-four.com)

Figure 1: Fully integrated ESG investment process



# Sustainability Governance

The CEO, who reports to the Board of Directors at Capital Four, holds overall responsibility for sustainability risks and opportunities, as well as objectives, initiatives, and reporting. The CEO ensures that Capital Four has a Responsible Investment Policy in place, which includes a comprehensive assessment of sustainability risk, and their implementation through our strategy framework.

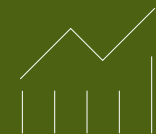
The Managing Directors of Research and the Investment Committee drive Capital Four's overall sustainability approach. They are responsible for integrating sustainability risk into the investment process, managing day-to-day sustainability topics, monitoring performance and reporting, and developing ESG related data analytics tools. This includes conveying the sustainability agenda and educating personnel in sustainability, while all employees are tasked with upholding the firm's policies, procedures and meeting the firm's ESG and climate-related objectives.

The management team reviews Capital Four's sustainability approach and performance periodically through its oversight and implementation of the strategy framework, while specific sustainability-related goals are set out annually.



## Senior Management Team

- CEO has overall responsibility for sustainability
- The Senior Management Team reviews sustainability approach and performance
- CEO: Sandro Näf



## Business Areas and Functions

- Managing Directors of Research and the Investment Committee have day-to-day responsibility for sustainability
- Responsible for integrating sustainability risk into the investment process



# Focus Areas 2022

Throughout 2022 Capital Four has focused on key areas to strengthen and implement our sustainability initiatives, both in terms of investment activities and our own operations.

Focus area	Status 2021	Status 2022
<b>GHG Emissions</b>	In 2021, we initiated carbon data gathering.	In the autumn of 2022, we began charting our portfolio's historical carbon trajectory. In December 2022, we became a signatory of the NZAM initiative, and we will publish our Initial Target Disclosure by December 2023.
<b>Sustainability Risk Assessment</b>	Intensified efforts to integrate ESG data into our financial models focusing on our data collection. Participation in working groups and initiatives aimed at expanding ESG data disclosure and understanding.	We have continuously worked on developing our ESG scoring and ESG integration in the investment process. These efforts not only inform our work on developing Capital Four's Task Force on Climate-Related Disclosures (TCFD) reporting.
<b>Engagement Efforts</b>	Capital Four actively participates in industry forums like the ELFA and CFA Society Denmark's ESG Integration Network, addressing diverse investment-related sustainability issues. These activities set the stage for a more structured engagement program to be implemented later.	We have updated our Engagement Policy with a focus on enhancing our engagement efforts across our investment teams and portfolios. A part of this work is to ensure regular reporting on Capital Four's engagement activities.
<b>ESG Risk and Data Disclosure from Investee Companies</b>	Integration of ESG data into our financial models, including our proprietary ESG scoring framework implemented across all portfolios, identifies and analyzes sustainability risks and opportunities. This approach also aligns with the SFDR's disclosure and reporting requirements.	During 2022 we have integrated ESG data further into our financial models, incl. pricing and margin-setting. We remain committed to work constructively with investee companies to deepen the understanding of sustainability risks, increase transparency and improve data quality.
<b>Diversity, Equity, and Inclusion</b>	In 2021, we completed initial workshops and conducted a comprehensive employee survey to focus our Diversity, Equity, and Inclusion (DEI) initiatives, establishing a baseline for our current DEI status. The project's outcomes include the creation of a DEI Policy and a governance structure for tracking progress on targets and initiatives.	The groundwork for the development and implementation of our DEI policy continued. We are committed to DEI, and prioritizes it in the ongoing development of Capital Four as an organization. The DEI policy was published at the beginning of 2023.

# Focus Areas 2023 and Beyond

In 2023, Capital Four's ESG efforts will continue, such as our commitment and development of our net zero strategy, the enhancement of disclosure and transparency efforts, as well as a stronger emphasis on social and diversity initiatives. Our mission remains focused on driving sustainable change and creating value for our stakeholders.

## Creating awareness about net zero targets



A key aspect of our 2023 mission is to heighten awareness of our net zero targets. Utilizing our investor position to engage with issuers and stakeholders, we are committed to fostering knowledge sharing and collective action for our sustainability goals. Active engagement in dialogues and collaborations will aid in the understanding and adoption of net zero targets. Read more on page 13.

## Enhancing diversity, equity and inclusion



Throughout 2023, we will amplify our focus on diversity, equity and inclusion initiatives. We recognize the value of diverse representation in creating a robust organization, and we will integrate these principles further into our operations. Read more on page 32.

## Implementing a net zero strategy



Having signed the NZAM initiative in December 2022, we are committed to transitioning our portfolio towards net zero carbon emissions. We will be developing and implementing our net zero strategy throughout 2023 to achieve this goal, and we will publish our Initial Target Disclosure in December 2023. Read more on page 13.

## Improving disclosure and transparency efforts



Building on previous efforts, we will further improve our disclosure and transparency activities, focusing especially on the intensive collection of Principal Adverse Impact (PAI) data from our investee companies. Given many borrowers are in early sustainability reporting stages, Capital Four actively engages with them to discuss materiality and promote transparency. Read more on page 23.

## Developing engagement processes



In 2023, we will continue to improve our tracking and recording of engagement activities and combine them with the ESG data that Capital Four has diligently worked to improve. This enhancement in information alignment will enable more strategic engagement with relevant stakeholders.

## CASE: CREDIT DAY

# Capital Four's Annual Credit Day: ESG Highlights

Capital Four hosted its second annual Credit Day at Copenhagen Business School (CBS), attracting over 200 participants. The event, emphasizing collaboration and discussion on pivotal topics in the credit field, encompassed contributions from distinguished academics, discerning investors, and industry-leading practitioners.

An important topic of the event was the ESG panel discussion during the second half of the day, titled “ESG: Impact, Data and Integration”. The panel combined insights from Louise Aagaard Jensen, PKA, a large pension fund with multi-asset class exposure, Jan Ståhlberg, Trill Impact, an impact private equity firm, and Capital Four’s own perspectives.

Key topics discussed included the progressive evolution of ESG efforts, with significant improvements in data availability; the considerable impact of directing capital towards sustainability-focused investments; the ongoing challenge of obtaining complete, high-quality data for ESG assessments, and the transformative role of technology in the space; the impact of ESG-related constraints on investment returns; and the importance of active ownership in achieving net zero targets.

**Directing capital can have an enormous impact**

The panel underscored the considerable potential for individuals to contribute to carbon emissions reduction by shifting their pension investments towards sustainability-focused alternatives. It also highlighted the steps taken by PKA to commit to carbon-neutrality across its EUR 54bn AuM, a decision followed by the development of frameworks to implement this commitment across various asset classes.

CEO and co-founder of Capital Four, Sandro Näf, concluded the event by reflecting on the firm’s motivation to support companies in need and emphasizing the evolving focus on funding businesses that drive positive change. The successful event stands as a testament to Capital Four’s commitment to the integration of ESG considerations into their credit strategies.





# Environment

## Ambition and approach

The latest scientific insights present a profound call to action, underlining the urgent need to address the intensifying climate crisis. Our ambition is to contribute to the worldwide initiative to combat climate change and mitigate its effects.

The Intergovernmental Panel on Climate Change (IPCC), supported by the UN, has provided a clear roadmap for action. Our strategy aligns with this global demand for action across all sectors.

We aim to be part of the solution by integrating climate considerations into our credit management practices. We believe that the long-term success of Capital Four as a leading investment manager in the global financial market depends on our sustained ability to adeptly evaluate sustainability risks in our investment process.



# Capital Four Supports Climate Action with Net Zero Initiative

## NET ZERO ASSET MANAGERS INITIATIVE

In 2022, we took our next step in contributing to a responsible future by engaging with the Net Zero Asset Managers (NZAM) initiative, and Capital Four became a signatory in December of that year. In alignment with the principles of the Paris Agreement, we are working towards the NZAM initiative's goals, with a target of achieving net zero portfolio emissions by 2050 or sooner. This significant undertaking, supported by our direct and indirect policy advocacy for the global 1.5°C target, calls for thoughtful implementation and development of Capital Four's net zero investment strategy.

Our strategy complies with the Paris Aligned Investment Initiative Net Zero Investment Framework (PAII NZIF). We will begin with the public initial target disclosure, a requirement within 12 months of joining NZAM. As we continue, we hope to extend our NZAM efforts, with care towards PAII NZIF and client requirements.

We assess climate risks through our own Capital Four ESG Score, which takes into account climate risks and GHG emissions, using both external ESG ratings and company-specific evaluations. We apply this assessment to all our assets under management, also including Principle Adverse Impact (PAI) indicators. For portfolios managed in line with the Net Zero Strategy, we also apply Climate Value at Risk metrics, quantifying potential financial losses under various climate scenarios.

Our Research and Portfolio Management Procedures are fully integrated into our investment decisions, and they outline how we identify, analyze, and assess sustainability risks. We also maintain a public engagement strategy, aiming to contribute positively to sustainability and reduce negative impacts. As a credit manager, we engage with issuers and key stakeholders, aiming to align

our AuM with the goal of net zero emissions by 2050 or sooner, doing our part in a global effort.

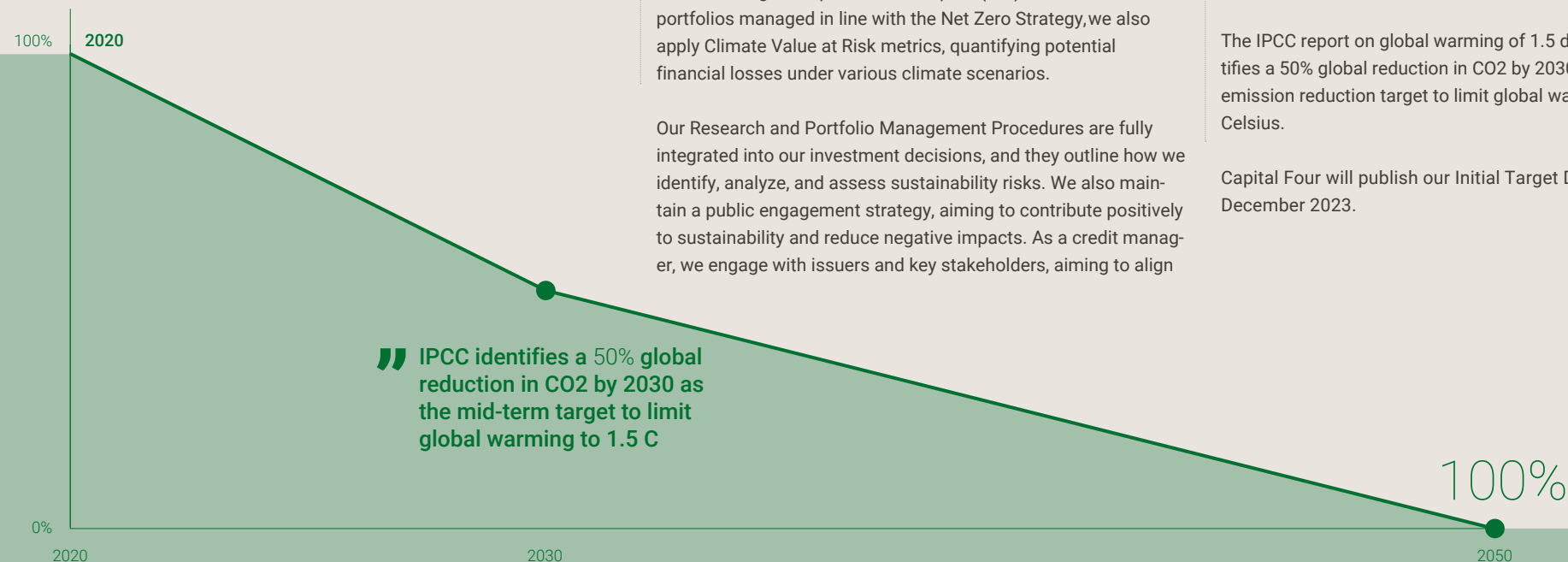
Joining the NZAM initiative and setting net zero targets is our way of responsibly participating in a global movement towards a more sustainable future.

### Interim Targets

Capital Four's net zero reduction pathway is the inflation adjusted Weighted Average Carbon Intensity (WACI) of the Capital Four Net Zero committed AUM.

The IPCC report on global warming of 1.5 degree Celsius identifies a 50% global reduction in CO<sub>2</sub> by 2030 as the mid-term emission reduction target to limit global warming to 1.5 degree Celsius.

Capital Four will publish our Initial Target Disclosure by December 2023.



# Incorporating Carbon Footprint into Credit Analysis

The carbon footprint has become an important factor in Capital Four's credit analysis, as carbon-related costs and risks may significantly influence a company's financial performance. Analyzing the carbon footprint within an investment portfolio enhances our comprehension of carbon-related financial risks and how the portfolio is positioned. The carbon footprint data simultaneously offers insights into individual companies' contributions and the entire investment portfolio's role in decarbonizing the economy.

To calculate the carbon footprint of the investment portfolio, GHG emissions from individual companies are used. By measuring a company's carbon intensity (CI) - including scope 1, 2, and, when possible, scope 3 GHG emissions per revenue unit - and combining it with portfolio weights, we derive the Weighted Average Carbon Intensity (WACI). This WACI serves as an indicator of the portfolio's exposure to carbon-intensive companies.

We are in the process of incorporating Scope 3 into WACI for our Article 8 products. Even as we actively work on this implementation, owing to enhanced Scope 3 data quality, there are additional stages to fulfill. This integration is a testament to our dedication to product enhancement, maintaining our leading position in compliance and innovation, and our commitment to meeting client needs and regulatory standards.

Additionally, we have integrated carbon data, such as CI and WACI, into our investment strategy. A crucial part of this initiative involves broadening our coverage of companies' emission data, reflecting our attentive and future-focused approach.

## Full disclosure on the rise

When working with carbon data, we use a tiered approach. First, we collect reported data on scope 1, 2, and 3 emissions for a company in our proprietary research management systems. We obtain information directly from the company, either through full or partial disclosure. If we do not have access to this information, we resort to using estimates from external data providers. Where no corporate data is available, we rely on industry averages for CI.

In 2022, we observed a 100% carbon data coverage across our loan, bond, multi-asset, and private debt strategies when applying our data waterfall logic. For full carbon footprint disclosure, data coverage across these strategies increased to 63%, marking an increase from 47% in 2021.

The Capital Four investment universe spans from smaller private company lenders in private debt to larger listed issuers of high yield bonds. These entities are at very different stages of their sustainability journey, and their resources dedicated to sustainability and climate range from limited to substantial. Over the year, we have observed an increase in awareness and responsiveness from borrowers regarding this issue, which is further supported by regulations on sustainability disclosure and several proposals on streamlining sustainability disclosure. As an investor in the leveraged finance universe, we need information and data on our investee companies' climate risk and opportunities to form a holistic view of the company and the quality of its management.

At Capital Four, we acknowledge the challenges associated with

integrating carbon data as an active part of asset management, especially for private companies with little data coverage. We are wholly focused on increasing data coverage through collaborative work and our own efforts. We also believe current developments in markets and regulations will significantly help increase data availability over the next few years. We observe that data is becoming more readily available as asset owners start to require data from portfolio companies and assist with resources and knowledge to obtain the data.





Figure 2: Carbon intensity data coverage

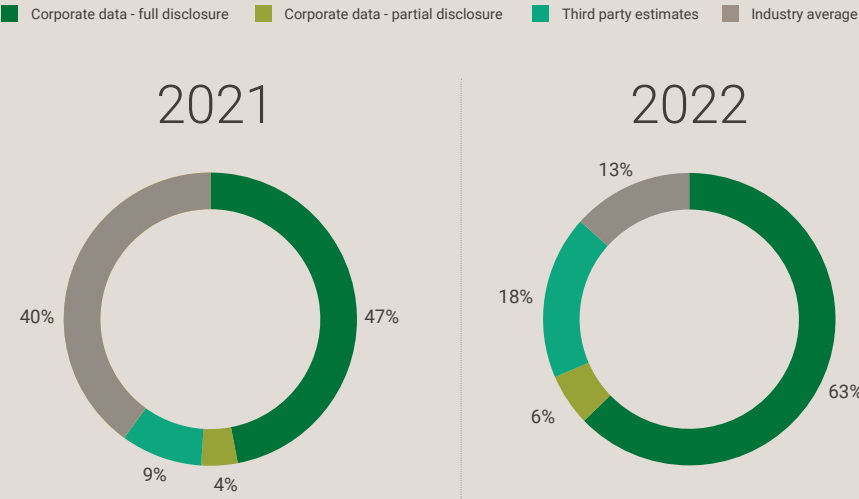


Table 1: Carbon data coverage in our investment strategies

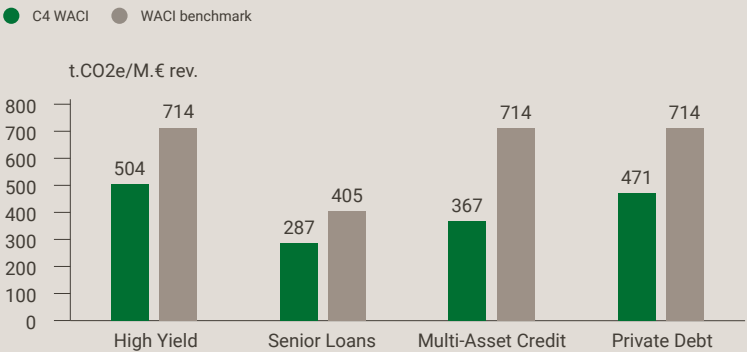
Table 1 provides a detailed view of the coverage of financed emissions across our investment strategies. Financed emissions are characterized as the total tonnes of Scope 1, 2 and 3 GHG emissions, calculated according to an investor’s proportion of the total enterprise value of an investee company. The data coverage ratios encompass full disclosure, partial disclosure, and third-party estimated carbon data. Financed GHG emission (PAI1) coverage differs from PAI 3 WACI coverage due to the inclusion, in the latter, of fallback values based on industry averages for companies for which carbon emission data (incl. scope 3) is not yet available.

	High Yield Bonds	Senior Loans	Multi-Asset Credit	Private Debt
Financed emissions Scope 1 coverage	96%	83%	82%	95%
Financed emissions Scope 2 coverage	94%	82%	81%	93%
Financed emissions Scope 3 coverage	91%	80%	79%	90%

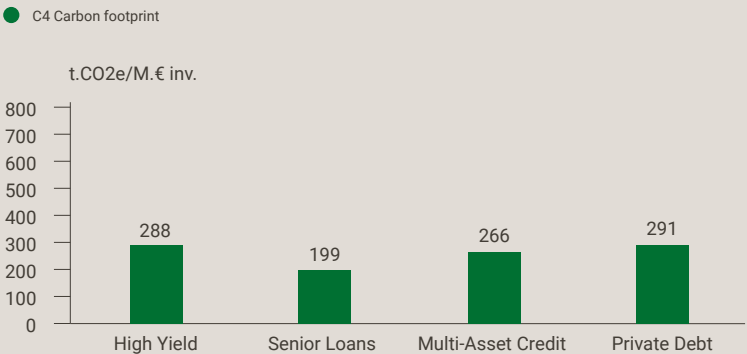
Figure 3: WACI and carbon footprint of Capital Four investment strategies

The figure below displays the WACI and the carbon footprint of each investment strategy managed by Capital Four, excluding Structured Credit.

Weighted average carbon intensity



Carbon footprint



# Investment Strategies

The sustainable debt market experienced a slight decline in 2022, with the total global issuance of sustainable debt reaching approximately EUR 1.2 trillion during the year.

In 2022, the total issuance of sustainable debt reached EUR 1.2 trillion, which included EUR 800 billion in green, social, sustainable, and sustainability-linked bonds, while the remaining EUR 400 billion was in the form of sustainability-linked loans.

Following COP26, 2022 was anticipated to witness further growth in the sustainable debt market, including large commitments to net zero carbon strategies from investors and managers. However, general disruption in the primary market due to the war in Ukraine, fluctuating inflation and interest rates, along with uncertainty in the macroeconomic environment, led to a slowdown in the market and a decrease in issuance compared to 2021.

A recovery in the sustainable debt market is expected in the second half of 2023 as central banks are anticipated to either pause or slow down their interest rate increases, thereby providing some stability to the market. The total issuance of sustainable debt is projected to reach EUR 1.5 trillion for 2023. Out of this amount, S&P predicts that the issuance in green, social, sustainable, and sustainability-linked bonds should reach EUR 800-900 billion in 2023, marking a 5-17% growth compared to 2022 levels and nearing the record issuance of EUR 960 billion in 2021. The remaining EUR 600-700 billion is anticipated to be issued in loans that carry ESG margin ratchets linked to ESG KPIs.

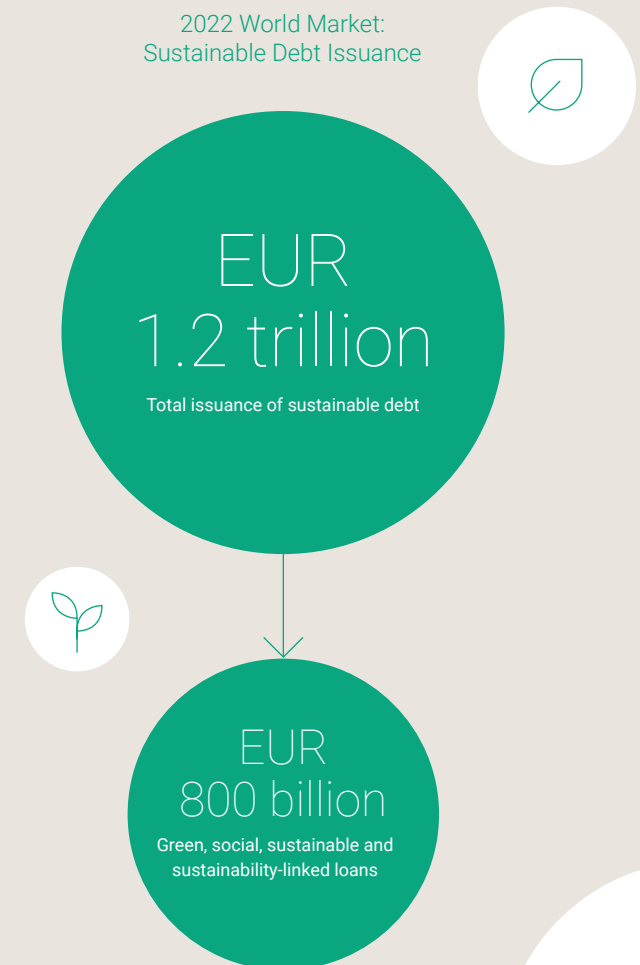
The market forecasts a rise in the issuance of sustainability-linked bonds and, to a lesser extent, loans. By the end of April 2023, 21% (or EUR 3.2 billion) of new issuance in the European loan market has sustainability margin ratchets tied to sustainability KPIs, marking a substantial increase from 6% in 2022. Moreover, 24% (or EUR 3.9 billion) of new issuance in the European high yield market consists of either green bonds (EUR 650 million) or sustainability-linked notes (EUR 3.2 billion).

Contrastingly, issuance in the US lags behind Europe. Only 0.3% (or EUR 0.6 billion) of new issuance in the US loan market YTD '23, as of the end of April, carries ESG margin ratchets linked to ESG KPIs. Similarly, just 3% (or EUR 1.9 billion) of new issuance in the US high yield market is either green bonds (EUR 1 billion) or sustainability-linked notes (EUR 0.9 billion).

## Capital Four's investment strategies

Capital Four manages five strategies. Below are descriptions of these strategies, along with their weighted ESG scores, WACI, and carbon footprint. These details are provided where adequate data is available.

2022 World Market:  
Sustainable Debt Issuance

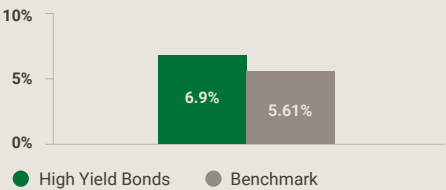


1. High Yield Bonds

High yield bonds are financial instruments with credit ratings of BB or below, offering investors the advantage of higher yields compared to investment-grade bonds. This attractive feature arises from the fact that issuers of these bonds might have a higher credit risk. For example, this may be due to volatile markets, or because they have more leverage in their capital structure, necessitating a higher return as compensation for the increased credit risk. However, investors often find value in high yield bonds, capitalizing on their significant return potential.

- Assets Managed EUR4.9bn (Mar. 2023), Inception 2001
- Focus on High Yield Bonds issued by Corporates and Financials (Bank capital)
- Global and European strategies
- Daily liquidity
- Available in fund and bespoke Separately Managed Account (SMA) format

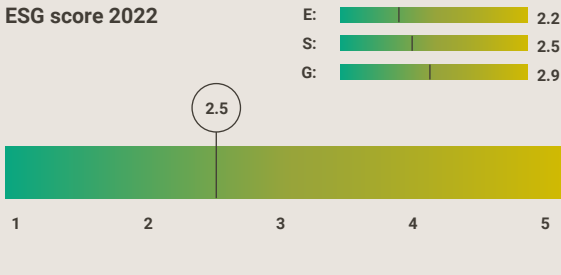
Track record since inception, annualized return



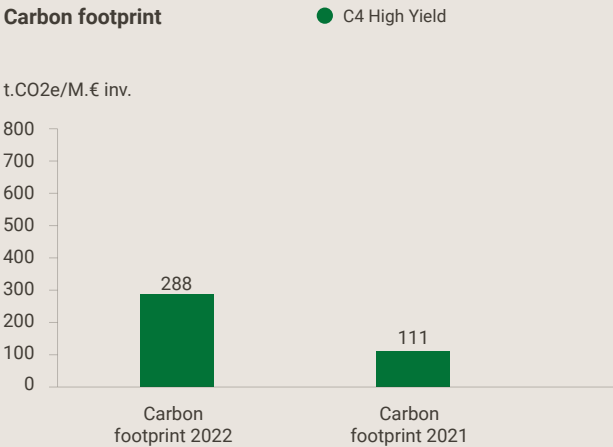
ESG score 2021



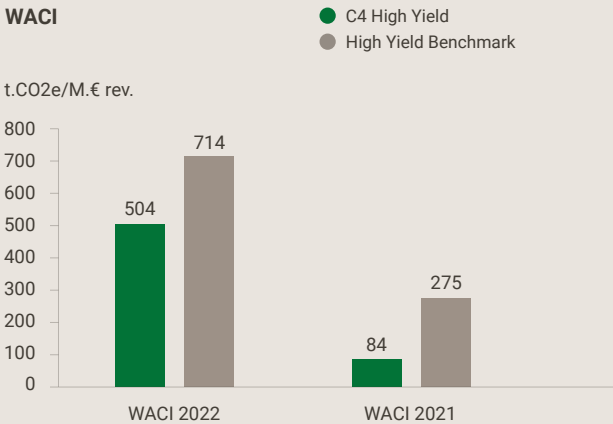
ESG score 2022



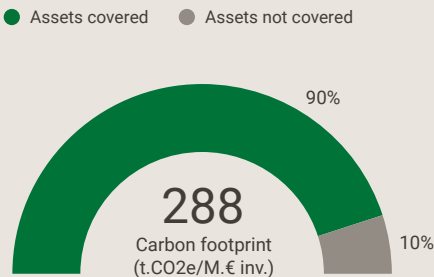
Carbon footprint



WACI



Carbon footprint coverage



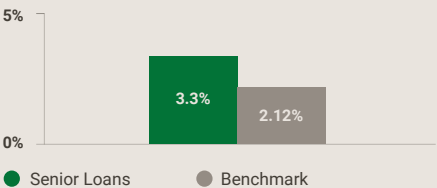


2. Senior Loans

Senior loans, also known as leveraged loans, are a type of financing provided by a group of lenders to companies. An attractive feature of these loans is their senior status in a company's capital structure, meaning they have first claim on the company's assets in the event of a default. This priority positioning significantly reduces the risk to lenders. Furthermore, these loans typically offer yields that are higher than those of other traditional fixed-income instruments, making them an appealing choice for investors seeking enhanced income potential. Another key benefit is their floating interest rates, which adjust with market conditions and can offer protection against inflation and rising interest rates.

- Assets Managed EUR5.1bn (Mar. 2023)
- Inception 2013
- Focus on Senior Secured Loans and Floating Rate Notes
- Global and European strategies
- Monthly liquidity and daily pricing
- Available in CLOs (managed by Capital Four), fund and bespoke SMA format

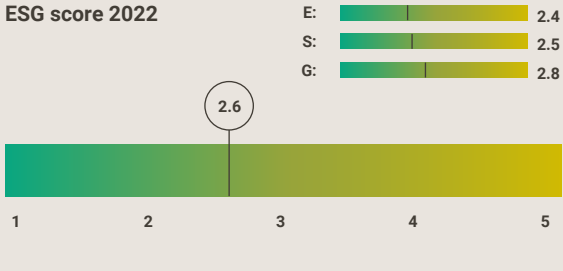
Track record since inception, annualized return



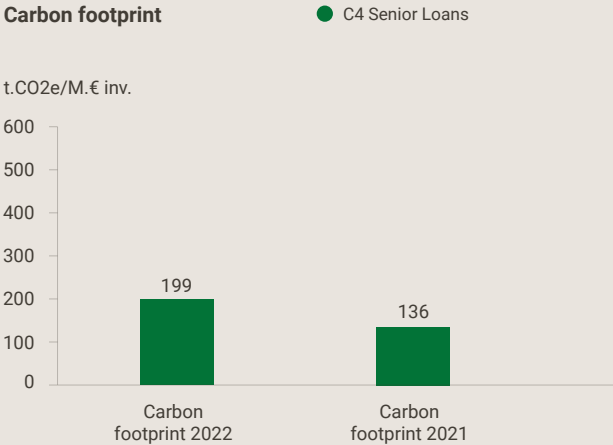
ESG score 2021



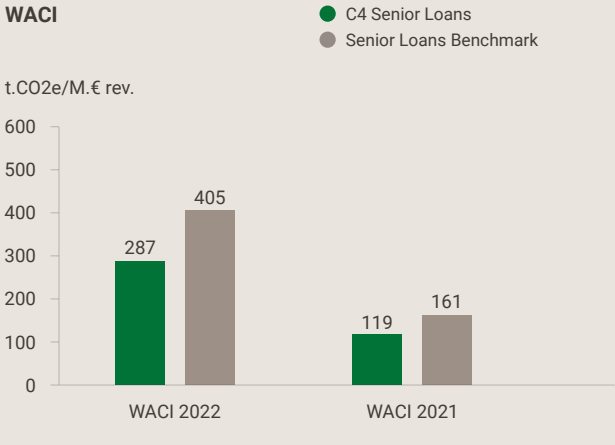
ESG score 2022



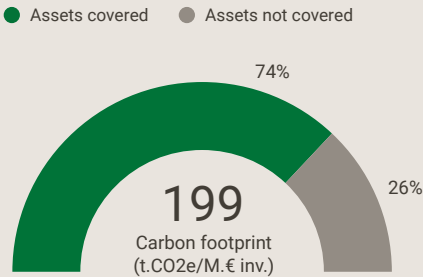
Carbon footprint



WACI



Carbon footprint coverage



## SENIOR LOAN CASE: AHLSELL

# Ahlsell Pursues Sustainability Milestones

**About Ahlsell**

Ahlsell is the Nordic region's leading distributor of installation products, tools, and supplies for installation, construction, real estate management, industrial and power companies, and the public sector. The company has an annual turnover of approx. SEK 50bn, around 7,500 employees, and 150,000 business customers. Ahlsell serves customers with more than 1 million products distributed through 300 stores, e-commerce, and 4 central warehouses. Ahlsell has approximately 3,500 suppliers.

**Case**

Ahlsell has a strong focus on responsible sourcing and creating a more sustainable value chain. Ahlsell's Code of Conduct is based on international standards and outlines requirements for sustainable business behavior.

Many of the products Ahlsell sells support improved energy efficiency, especially within heating and electrical products. Ahlsell has set the climate objective to halve its carbon footprint by 2030 and to be net zero throughout the value chain by 2045. The company has set an objective of having Science-Based Target Initiative (SBTi) validated climate targets in place for Scope 1-3 during 2024.

In 2022, Ahlsell achieved a Platinum score in Ecovadis' annual assessment, which is the highest rating, and an acknowledgment of Ahlsell's sustainability efforts.

Capital Four has been invested in Ahlsell since 2012. In February 2021, Ahlsell refinanced its outstanding loans by issuing a sustainability-linked loan, where the margin is tied to the company reaching its targets within GHG emission reduction.

**Statement:**

Ahlsell's Chief Sustainability Officer (CSO) Christina Lindbäck says, "Sustainability is at the heart of Ahlsell's business and commitment to sustainable construction. Ahlsell's commitment to reducing the environmental footprint is clearly demonstrated through the ambitious ESG targets we have set ourselves.

The sustainability-linked loan offering underlines Ahlsell's strong ongoing commitment to sustainability and makes us continue to focus on activities related to lowering our carbon footprint in accordance with our promise to always strive to 'become better today than yesterday'.

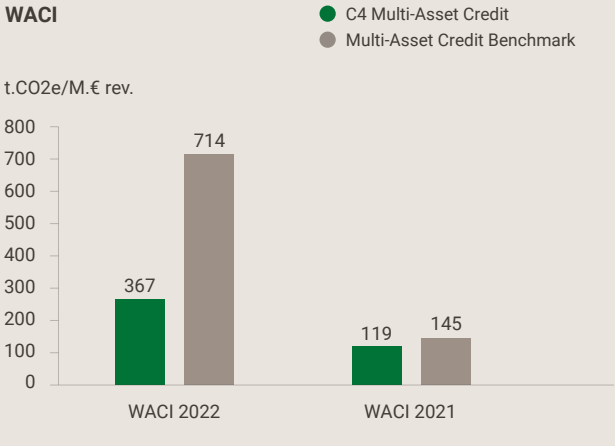
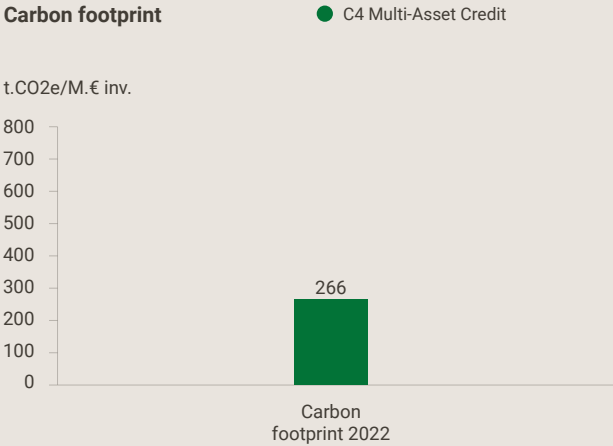
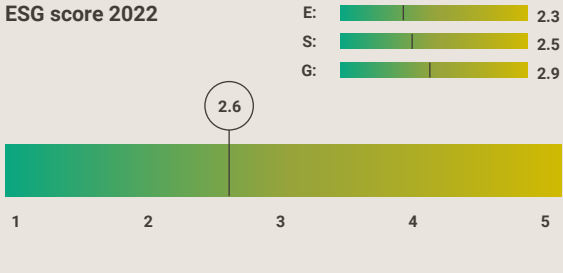
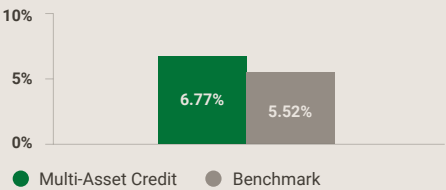


3. Multi-Asset Credit

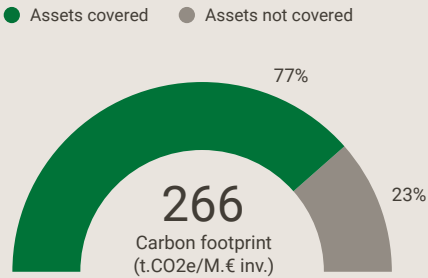
Multi-Asset Credit refers to an investment strategy that involves investing across a diverse range of credit markets, including but not limited to, high yield bonds, leveraged loans, and structured credit. The goal of this approach is to exploit opportunities for return across different types of credit instruments, geographies, and sectors. It allows investors to draw on best ideas across the credit markets, increase diversification, and optimize returns by dynamically adjusting the asset mix based on market conditions and relative value assessments.

- Assets Managed EUR2.7bn (Mar. 2023), Inception 2010
- Combining high yield, senior loans, and structured credit
- Analytical focus on relative value in addition to bottom-up security selection
- From daily to quarterly liquidity
- Available in fund and bespoke SMA format

Track record since inception, annualized return



Carbon footprint coverage



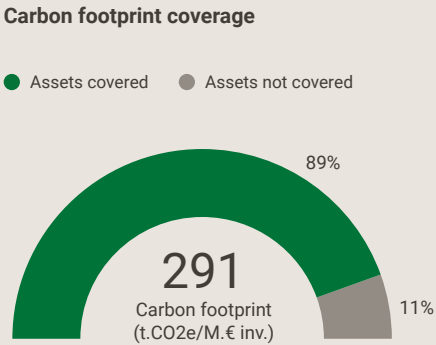
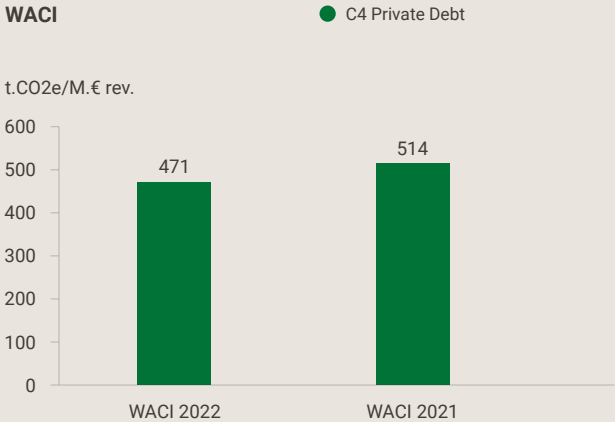
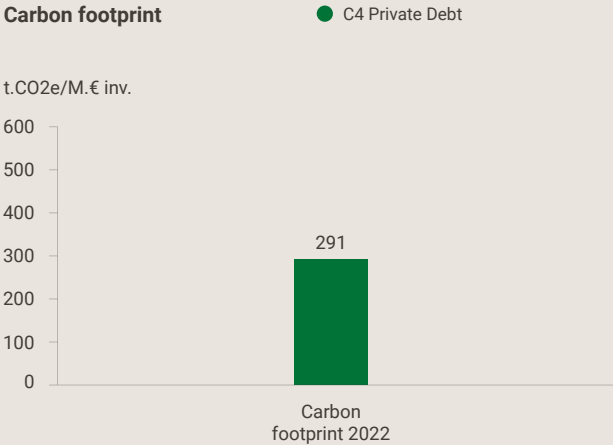
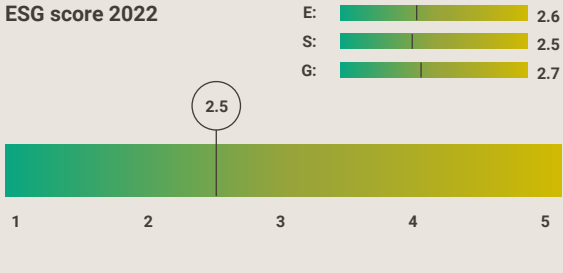
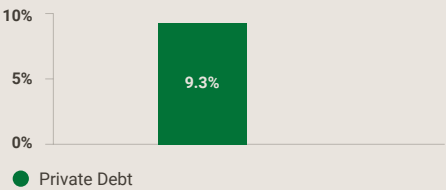


4. Private Debt

Private debt refers to loans or debt securities issued by companies that are not publicly traded on a securities exchange. The focus on lower middle-market corporates in the Nordics and Northern Europe typically involves financing smaller, privately held companies that are often overlooked by larger banks and lenders. These transactions are mainly driven by sponsors, typically private equity firms, who provide capital and strategic guidance to the companies. The financing strategies can involve both senior and subordinated loans. Senior loans have priority in repayment in the event of a default, whereas subordinated loans are repaid after all senior obligations have been met. These private debt investment opportunities are usually available through closed-end funds, which are pooled investment vehicles with a fixed number of shares and a predetermined maturity date.

- Assets Managed EUR3.4bn (Mar. 2023), Inception 2015
- Focus on lower middle-market corporates (EBITDA around EUR 10-20m) in the Nordics & Northern Europe
- Mainly sponsor-driven transactions
- Both senior and subordinated financing strategies
- Available in closed-end fund format

Track record since inception, annualized return



PRIVATE DEBT CASE: ELCEE

# Sustainability Goals Shape Loan Terms

## About ELCEE

ELCEE, founded in 1923 and headquartered in Dordrecht, Netherlands, is a leading supplier of customized parts and components, assembled products and standards products for a wide range of industries such as food processing, construction & energy, transport, and agriculture. The company is active in the development, design, engineering, and supply chain management of industrial parts in four product groups: Castings and forgings, plain bearings, fasteners, and lifters. ELCEE operates local offices throughout Europe in combination with technical support centers in China and Poland.

## Private Equity owner

Rivean Capital is a Dutch private equity firm with offices in Brussels, Frankfurt, Milan, Amsterdam, and Zurich, focusing on buy-and-build strategies.

## Case

Rivean Capital ("Rivean") acquired a majority stake in ELCEE in July 2018. The initial transaction was funded through a mix of equity from Rivean, ELCEE's management and a bank debt. In September 2022, Capital Four provided a new financing solution.

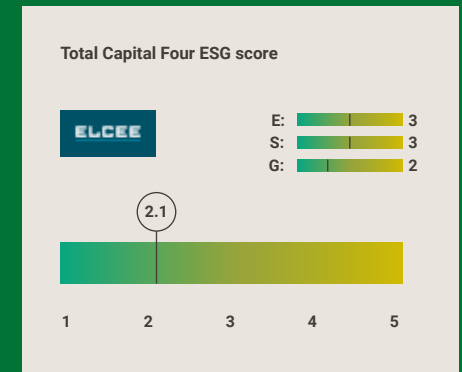
The financing agreement is a sustainability linked loan with three KPIs tied to the periodic

interest payments with the aim of incentivizing Rivean and ELCEE to promote environmental and social sustainable economic activity. In return, ELCEE has the opportunity to benefit from a reduced margin in the lending arrangement. Failure to meet the KPIs will lead to an increase in margins.

ELCEE has engaged with external consultants to form a comprehensive understanding of the various risks and opportunities it encounters in its operations. Together with Rivean, Capital Four has used the sustainability assessment to design material KPIs and related Sustainability Performance Targets (SPTs). The specific KPIs linked to the financing facility pertain to 1) reducing Scope I & II emissions as well as beginning to measure Scope III emissions and subsequently reducing them as part of the transition plan towards Net Zero, 2) increasing gender diversity in the company with emphasis on executive positions and 3) ensuring that the main suppliers sign and adhere to the company's Supplier Code of Conduct.

The custom-tailored selection of KPIs and targets allows Capital Four to support and impact the borrower's sustainability goals in a way that is aligned with our own assessment of ELCEE's material ESG risk factors. The establishment

and successful attainment of these targets are expected to result in a gradual improvement of ELCEE's ESG score, which will be incorporated into our assessment of the company's overall risk-return profile.



"Sustainability is one of Rivean Capital's core investment themes. It is also deeply ingrained in ELCEE's daily operations. The company's solutions are more sustainable compared to alternatives in terms of weight, waste, energy efficiency, and materials circularity. The financing package provided by Capital Four has given ELCEE the necessary capital to continue its successful buy-and-build strategy in a fragmented market where it is the consolidator of choice."

Tom Muizers, Senior Partner at Rivean Capital



# Regulatory Sustainability Focus

The European Union has introduced a series of legal measures requiring firms that manage investment funds to disclose how they integrate sustainability into their investment processes. In accordance with these requirements, Capital Four has made several disclosures under the SFDR regulation.

## Principal Adverse Impacts

According to the SFDR, asset managers must detail how they consider principal adverse impacts (PAIs), referencing specific, quantifiable indicators related to sustainability. PAIs are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

During 2022, we have worked intensively on collecting the PAI data of our investee companies. Along with the initial 14 PAIs outlined in Annex 1 of the Delegated Regulation (EU) 2022/1288, we also consider factors like investment in non-green companies (PAI 4, Table 2) and weak whistleblower protection (PAI 6, Table 3).

For all PAIs, we analyse the data and, where necessary, engage with the concerned companies, particularly if their data is an outlier or unavailable. Companies with significant adverse impacts or classed as outliers may warrant additional analysis, direct engagement following our Engagement Policy, or a portfolio reevaluation.

In the PAI mix, Capital Four pays special attention to GHG emissions (PAIs 1-3), exposure to fossil fuel businesses (PAI 4), infringements of UNGC principles and OECD Guidelines for Multinational Enterprises (PAI 10), and controversial weapons (PAI 14). This prioritization is reflected in our reported PAIs versus the Leveraged Finance Market (a blend of the High Yield Market and the Leveraged Loan Market), and we proudly report lower impacts in 2022 on entity level, with no exposure to controversial weapons and no UNGC/OECD violators.

We collect PAI information by systematically following a data waterfall logic. It draws upon issuer/investee company disclosures or third-party data providers. We prioritize issuer-provided data, falling back on third-party data when necessary. If neither is available, assets are marked "N/A" or left blank in the reports, excluding GHG intensity of investee companies (PAI 3) where an industry average fallback value is applied.

Acknowledging limited data availability for some instruments and PAIs, we have still managed to achieve an average data coverage of 69% in 2022 for all managed assets. We aim to continue enhancing data coverage and believe it will improve

over the years. Consequently, we commit to regularly reviewing our PAI data and corresponding actions.

## Integration of sustainability risk

Capital Four identifies and evaluates sustainability risks and other relevant ESG factors at multiple stages throughout the investment process. We score the sustainability profile of a company according to Capital Four's ESG scoring model and apply sector and norm-based exclusions. We integrate sustainability risks into the investment decision-making process and risk management when they represent potential or actual material risks or opportunities to optimize the long-term risk-adjusted return.

## New product offerings

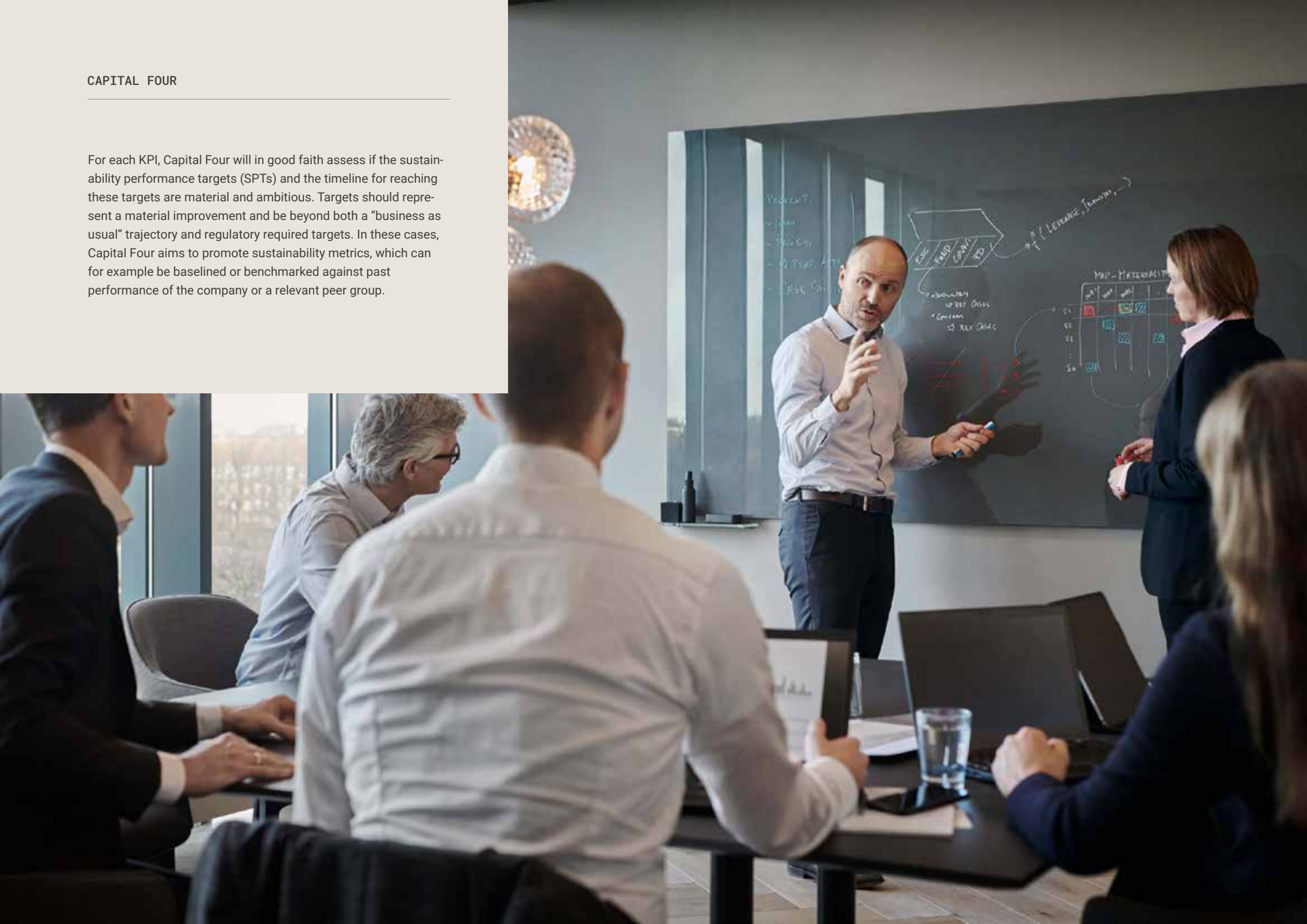
In 2022, aligned with our regulatory sustainability focus, we launched two new types of SFDR Article 8 products. For our bond, loan, and multi-asset credit strategies, our new product offerings promote environmental characteristics. Our approach focuses on GHG emissions, measured in terms of the WACI of each investee company. Several of the products and mandates in these strategies have adopted this approach, where the portfolios are invested such that the WACI of the portfolio is, depending on the specific product, at least 10 to 20 per cent lower than the WACI of the relevant ESG benchmark.

For our private debt strategy, our new SFDR article 8 offering promotes both environmental and social characteristics by incorporating sustainability features in the underlying investment instruments. The private debt loans will include sustainability-linked key performance indicators (KPIs) which have an impact on the economics of the private debt loan invested in the strategy. When negotiating terms with an issuer, Capital Four aims to ensure that the KPIs address relevant and material sustainability issues of the borrower and are aligned with Capital Four's assessment of which issues are material for the company.



## CAPITAL FOUR

For each KPI, Capital Four will in good faith assess if the sustainability performance targets (SPTs) and the timeline for reaching these targets are material and ambitious. Targets should represent a material improvement and be beyond both a “business as usual” trajectory and regulatory required targets. In these cases, Capital Four aims to promote sustainability metrics, which can for example be baselined or benchmarked against past performance of the company or a relevant peer group.



# TCFD

We began reporting on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in 2022 as part of our efforts to be transparent about our climate-related initiatives and risks.

A significant component of our climate strategy involves our commitment to the NZAM initiative, driving our ambition of achieving net zero portfolio emissions by 2050 or sooner. Additionally, we are enhancing our approach to climate scenario analyses. These forward-looking assessments explore the potential financial implications of different climate futures, supporting our alignment with the 1.5°C target. As part of our TCFD reporting, we apply Climate Value at Risk metrics, quantifying potential financial losses under various climate scenarios. This enhances our understanding of climate risks and opportunities, improving our responsible investment approach.

Furthermore, we are fully incorporating PAIs into our investment decisions. This proactive approach allows us to identify and mitigate significant negative sustainability impacts, refining our investment process and promoting more responsible business practices. To collect these crucial data, we've engaged in an intensive process of soliciting information from our investee companies, supplementing it with reliable third-party data sources when necessary. This comprehensive methodology enhances our ability to fully understand the broader environmental, social, and governance implications of our investment choices.

These concerted initiatives underscore Capital Four's commitment to playing our part in the transition towards a sustainable and resilient financial system.

## Governance

### Board Oversight of Climate-Related Risks and Opportunities

The CEO of Capital Four reports to the Board of Directors and ensures that a Responsible Investment Policy is in place. This policy includes the assessment of sustainability risks, including climate-related risks, and is implemented through our ESG framework. Specific sustainability-related goals for Capital Four are set out annually. One of our key goals was to deliver our first TCFD report during 2022. and to develop our net zero strategy in 2023.

### Management's Role in Assessing and Managing Climate-Related Risks and Opportunities

The management team is responsible for the oversight and implementation of the ESG framework, with project groups delivering action plans to achieve the set goals.



## TCFD

Established in 2015 by the Financial Stability Board based in Basel, the TCFD aims to create recommendations for information disclosure. These recommendations assist investors, lenders, and insurance underwriters in assessing and pricing climate change risks.

Furthermore, the management team oversees Capital Four's efforts on climate-related issues at an operational level. All employees at Capital Four are responsible for acting in accordance with the firm's objectives, and for upholding the firm's policies and procedures.

In our capacity as an investment manager, the Investment Committee is responsible for integrating sustainability risks into the investment process and holds sole authority over investment decisions. All investment analysts are responsible for integrating sustainability risks and opportunities into their daily investment analysis. The co-heads of performing research are responsible for driving and developing the integration of ESG analysis into the investment process, as well as for the development of ESG-related data analytics tools.

## Strategy

### Impact of Climate-Related Risks and Opportunities on the Business, Strategy, and Financial Planning

In our investment activities, we recognize that climate-related risks and opportunities can affect the valuation of investments and, subsequently, the performance of our investment products. We prioritize companies' GHG emissions and CI as an initial step in analyzing the climate impact of each investment we make, which are considered as part of the investment process.

Based on our work with carbon emissions data, we have developed new investment strategies that directly link to carbon emissions. These strategies promote environmental characteristics by incorporating WACI into investment decisions, and commit to maintaining a portfolio WACI lower than that of a general market index.

We believe that investing with a carbon focus will not significantly limit our investment universe. We anticipate that the improving quality of data and the improvement of ESG factors in investment companies will, over time, enhance the attractiveness of our investment strategy.

In continuing our strategic work on climate, we signed up for the Net Zero Asset Managers initiative in December 2022. Aligned with the Paris Agreement, our goal is net zero portfolio emissions by 2050 or earlier, supported by our global 1.5°C target advocacy. Our interim targets are a 50% reduction in 2030, and ultimately reach net zero WACI levels in 2050, relative to 2020. These apply to assets under our net zero strategy.

Capital Four is committed to increasing our sustainability efforts. Significant investments have been made to collect ESG data from all investments and to improve data analytics tools.

We do not consider our operations to have significant exposure to climate-related risk. Our business is mainly centered around a few leased office locations, and we are capable of maintaining a flexible working environment. Capital Four is committed to achieving carbon neutrality in our corporate activities.

### Climate Resilience

We acknowledge that climate risk and opportunities can have a financial impact on our investments. We continue to work on integrating these factors more comprehensively into our investment processes. We can view the WACI of a portfolio versus its benchmark at any point (split by sector or through full aggregation, and we apply climate-related scenarios to investments. Read more about how we work with scenarios in our case study on Climate Value at Risk.





## CASE: SCENARIO ANALYSIS

# Using Climate Value at Risk for Scenario Analysis

Originating from Value at Risk (VaR), a statistic that quantifies potential financial losses within a firm, portfolio, or position over a specific timeframe, Climate Value at Risk metrics apply climate scenarios to the financial estimates. They project the loss or gain an asset or portfolio may experience under various climate scenarios within a given time horizon, and at a specific probability.

Our approach to Climate Value at Risk draws significant inspiration from the FinDox's review of senior secured Climate Value at Risk considerations from May 2022. FinDox makes a distinction between Transition Costs and Physical Risk.

Our attention has been predominantly centered around Transition Costs. This focus stems from our investment activities mainly taking place in Europe and the United States, regions generally associated with low Physical Risk. We define Transition Costs as the taxes a company pays due to its carbon emissions.

Transition Costs are calculated based on the absolute size of greenhouse gas emissions, levied as a tax per ton of CO<sub>2</sub>. For companies with a loan-to-value (LTV) ratio above 70, these costs may impact the company's ability to service

senior secured bonds or loans. It's important to note that for companies with lower LTV, the credit risk is born by equity holders and/or junior creditors. While we don't assign a zero value at risk to the borrower under any circumstances, our analysis primarily concentrates on senior secured debt instruments. As such, minor climate impacts will likely be absorbed by potentially structurally junior claim holders and equity holders, not the senior secured bonds or loans.

To assess the impact of transition costs on credit risk, we estimate a modified cash flow by subtracting Capex and Transition Costs from EBITDA. Based on this modified cash flow, we evaluate how well the interest expense is covered.

Companies with modified cash flow coverage higher than 1.1x their interest expenses are assigned no Climate Value at Risk. However, for companies where the modified coverage ratio falls below 1.1x, we assign a Climate Value at Risk.

Ultimately, companies carrying Climate Value at Risk contribute to the overall Climate Value at Risk of a portfolio, proportionate to their weight within the portfolio.



"Our scenario approach is an in-house developed model that provides a forward-looking assessment of transition costs on the credit risk of investee companies, in addition to principal adverse impact assessments. The method applies different scenarios and models investee companies' cash flow sensitivity to transition costs based on the increase of greenhouse gas emission tax per ton of CO<sub>2</sub>. This is the forward-looking climate scenario that will be used for the reporting period of 2023."

Rene Kallestrup,  
Portfolio Manager & Partner at Capital Four

## Risk Management

### Assessment of Climate-Related Risk

We analyze and assess all investment issuers against material sustainability risk factors determined for the industry in which they operate. Individual investments can be assessed based on their decarbonization and climate strategies. This assessment forms part of our ongoing risk/return evaluation of our investment decisions.

In 2022, we focused on collecting PAI data of investee companies, including 14 initial PAIs from Annex 1 of Delegated Regulation (EU) 2022/1288, and considering factors such as exposure to fossil fuels (PAI 4) and weak whistleblower protection (PAI 6). We analyze all PAIs and engage with companies as needed, especially if data is an outlier or unavailable. Those with adverse impacts or considered outliers may require further analysis, engagement or portfolio reevaluation.

Capital Four in particular emphasizes Greenhouse Gas (GHG) emissions (PAIs 1-3), fossil fuel exposure (PAI 4), UNGC principle and OECD Guideline infringements (PAI 10), and controversial weapons (PAI 14). This focus is mirrored in our reported PAIs versus the Leveraged Finance Market, where we report lower impacts compared to the Leveraged Finance Market in 2022, with no exposure to controversial weapons or UNGC/OECD violations.

### Management of Climate-Related Risks

The Investment Committee holds responsibility for investment decisions. Sustainability risk, including inherent climate-related risk, is incorporated into the investment analysis by our investment analysts, with support from the ESG research analysts.

We engage with portfolio companies to encourage emission reduction, bearing in mind climate-related risk challenges. In our private debt strategies, we can directly link environmental or climate-related KPIs to the economics of the financing facility. Furthermore, we have introduced firm-wide investment restrictions. These target direct investments in companies that generate revenue from controversial weapons or tobacco, generate more than 10% of revenue from coal or more than 5% from arctic drilling or are engaged in aggressive tax planning.

The operations team is responsible for overseeing compliance with the investment mandate. For some strategies, this is directly linked to environmental characteristics. For these specific strategies, the WACI at the portfolio level becomes a binding investment constraint, which can lead to investment rejection or portfolio reconstruction to align with our commitments.

At Capital Four, all full-time employees (FTEs) have the ability to work remotely. This reduces business risk in the unlikely event of physical climate risk materializing simultaneously across our locations. All IT infrastructure and data are further managed through the cloud, thereby limiting our business risk.

### Metrics and Targets – Investments

Across our investment universe, we use carbon emissions data in conjunction with Capital Four's ESG scoring, PAIs and scenario analysis to assess climate-related risk. Both CI and WACI are used at the investment portfolio and benchmark levels. Selected strategies will be managed according to a WACI threshold depending on liquidity and asset class. ESG scoring and WACI form part of our continuous client reporting. In the investment strategies overview on page 16, we present this data on our investments.

Capital Four incorporates sustainability-linked KPIs into the financing structure of borrowers in our private debt strategies, which often align directly with emission disclosure and reduction targets. Over the past year, Capital Four has entered into 26 new direct lending agreements as part of our private debt strategy, which include SLL features in the loan documentation.

### Metrics and Targets – Operations

For our corporate activities and operations, we calculate scope 1 and 2 GHG emissions as well as portions of scope 3 emissions.

**Table 2: Greenhouse gas emissions from Capital Four's corporate activities**

	2018	2019	2020	2021	2022
Scope 1 CO2e (tonnes)	0	0	0	0.9	2.6
Scope 2 CO2e (tonnes)	15.2	14.2	15.2	8.8	15.0
Scope 3 CO2e (tonnes)	236.9	179.1	25.9	19.9	181.8
Total Scope 1 - 3 CO2e (tonnes)	252.1	193.3	41.1	29.6	199.5
Total CO2 per FTE (tonnes)	5.48	3.65	0.63	0.40	2.43

# Sustainability of Corporate Activities

Capital Four is focused not only on sustainability in our investment activities but also on our own actions across environmental, social, and governance themes. We remain committed to reducing our corporate carbon footprint and are pursuing the goal of becoming carbon neutral.

## Environmental Footprint

### GHG Emissions

In 2022, we sustained our commitment to comprehensively map and calculate our corporate carbon footprint, following the Greenhouse Gas Protocol as we have in previous years. The CO<sub>2</sub>e emissions from our corporate activities, which encompass scopes 1, 2, and 3, are depicted in the figure below.

Since the global pandemic, we have transitioned more heavily to virtual meetings for both internal and external communications. Any carbon emissions from flying, we offset with high-grade carbon offsetting schemes. Additionally, as part of our efforts to promote greener commuting options, Capital Four offered transit passes to employees through a gross salary scheme.

Our Scope 3 emissions moved back to the levels of 2019, reflecting the normalization of our business travel patterns post-pandemic. Importantly, this reversion maintains the downward trajectory of emissions observed in the years leading up to the pandemic, reaffirming our commitment to continuous environmental improvement, including the offsetting of all business travel.

In our drive to bolster our sustainability efforts, we began sourcing guarantees of origin for all purchased electricity in 2021. This initiative ensured that all electricity consumed in our operations came from renewable energy sources.

Figure 4: GHG emissions

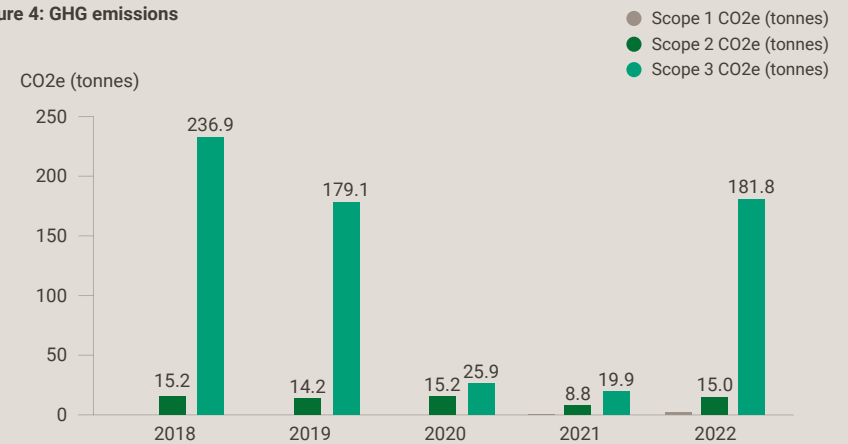
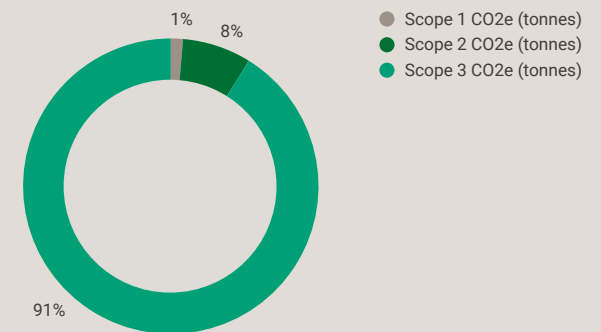


Figure 5: GHG emissions 2022



Waste and Recycling

In 2022, Capital Four generated 6.58 tonnes of waste, which was higher than the previous year due to employees returning to work post the COVID-19 pandemic, resulting in more days spent in the offices.

At the same time, we managed to recycle more waste than in the previous year. In 2022, we recycled 54% of waste compared to 48% the

year before. Capital Four is committed to reducing office waste and increasing recycling. For instance, we provide all employees with tablet computers, which significantly decreases our paper consumption. In our Copenhagen office, we sort waste and recycle ink cartridges and bottles.

Table 3: Greenhouse gas emissions from Capital Four's corporate activities

	2018	2019	2020	2021	2022
Total waste generations (tonnes)	2.26	3.59	3.05	4.72	6.58
% of waste for recycling	52%	50%	55%	48%	54%
Waste per FTE	0.05	0.07	0.05	0.06	0.08





# Social

## Ambition and approach

Our people are essential to delivering our strong operational performance and to achieving our growth ambitions. The credit asset management industry offers significant growth opportunities in an environment where we have competitive advantages and can offer job opportunities to talents who are attracted to working with sustainable investing.

We seek to provide a diverse workplace where all our employees can thrive and are motivated to help create a sustainable business. In particular, we focus on training and development and addressing female under-representation in the financial sector.



# Diversity, Equity and Inclusion

Last year, Capital Four successfully concluded a significant initiative that is intended to shape the future of our organization. We assembled a diverse working group comprising representatives from various functions, seniority levels, geographies, and genders, including our CEO's active involvement. Together, they collaborated with an external consultant to craft our Diversity, Equity, and Inclusion (DEI) Policy.

In the course of this project, we initiated several workshops and conducted an organization-wide survey to guide the focus of our initiatives and establish a baseline understanding of our standing regarding diversity, equity, and inclusion. This collaborative effort enabled us to develop and implement targeted strategies that respect and harness our organizational diversity.

Our efforts culminated in the unveiling of our new DEI Policy, an important milestone in our commitment to fostering a diverse and inclusive workplace. Alongside this policy, we established a governance structure that helps us maintain focus on, and track progress towards our targets, and evaluate the effectiveness of our initiatives.

We have recognized the systemic underrepresentation of women, both within Capital Four and the broader financial sector, and we have made it a priority to address this imbalance. Our new DEI Policy underscores the importance of attracting a diverse workforce, including women and individuals from various backgrounds, reaffirming our belief that diversity and inclusion are essential for a thriving workplace and effective decision-making.

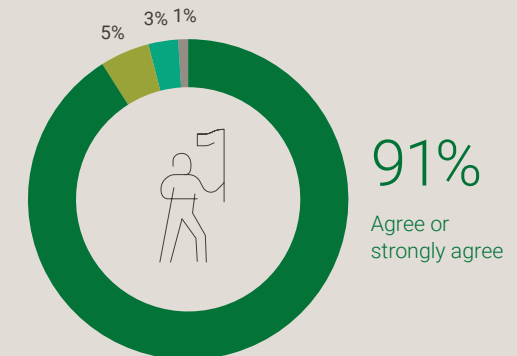
We acknowledge that DEI is an ongoing process, and we will continue to nurture and expand our efforts in creating a truly inclusive environment where every individual feels valued and has equal opportunities to succeed.

Read Capital Four's DEI policy here:

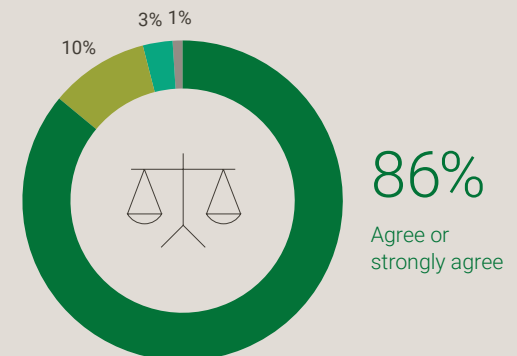
[Capital Four \(capital-four.com\)](https://capital-four.com)

Figure 6: Capital Four DEI company survey across all employees

I believe a diverse workforce is important to achieving our operational goals



I trust Capital Four to treat all employees with fairness



## CASE: GRADUATE PROGRAM

# Shaping Inclusive Leaders through Capital Four's Graduate Program

Our graduate program is a crucial element of our DEI strategy, fostering inclusivity and diversity within Capital Four. Currently, we host nine participants, with a gender distribution of three males and six females. The program is diverse and dynamic, providing participants with internal rotations to gain exposure to various departments and functions. Our graduates also participate actively in internal masterclasses, which are highly interactive sessions with training and mentorship from seasoned professionals. As part of the program, participants relocate to our New York office, promoting a global perspective and expanding their professional networks. Through these initiatives, our graduate program enables participants to contribute their unique perspectives and talents, thereby encouraging a culture of inclusivity and diversity throughout our organization.

## Building Confidence Through Supportive Learning Environments

In addition to internal rotations, masterclasses, and relocation opportunities, our graduate program includes a mentorship program. Each participant is paired with carefully selected, experienced mentors, fostering diversity in mentor-mentee pairings. These mentors provide

guidance, support, and industry insights, helping participants navigate their career paths and overcome challenges. The mentorship program facilitates knowledge transfer, networking, and professional development. By nurturing these mentor-mentee relationships, our graduate program cultivates a supportive and empowering environment where participants can learn from seasoned professionals and enhance their skills and confidence as they progress in their careers.

## Fostering an Environment Where Our Employees Can Thrive and Grow

Capital Four is dedicated to cultivating an environment where our employees can thrive, grow, gain valuable skills, knowledge, and experiences. By offering an array of opportunities and resources to the participants of the graduate program, we enable them to reach their full potential and fulfill their individual career goals. Additionally, we recognize the importance of personal development alongside professional growth, ensuring our program supports participants in both life aspects. Through this holistic approach, we strive to create a meaningful and impactful experience for each participant in our graduate program.

## Built on Our Core Values

Our graduate program aligns closely with our core values: being driven, thoughtful, collaborative, and forward-thinking. We foster a culture of ambition and motivation, encouraging participants to be proactive in pursuing their goals and making a positive impact. Through thought-provoking coursework, immersive experiences, and mentorship, we inspire participants to think critically and approach challenges with a thoughtful and analytical mindset. Collaboration is at the heart of our program; participants engage in team projects, interact with experts, and benefit from the support and knowledge exchange within our diverse community. Lastly, we foster a forward-thinking mindset by equipping participants with cutting-edge knowledge, exposure to emerging trends, and opportunities to provide innovative solutions to real-world problems. By embracing these values, our graduate program enables participants to become influential leaders who drive positive change.



"Working at Capital Four has provided me with great learning and development opportunities. I have had the chance to specialize in ESG and have been part of developing Capital Four's Net Zero investment strategy as well as the preparation of this Sustainability Report."

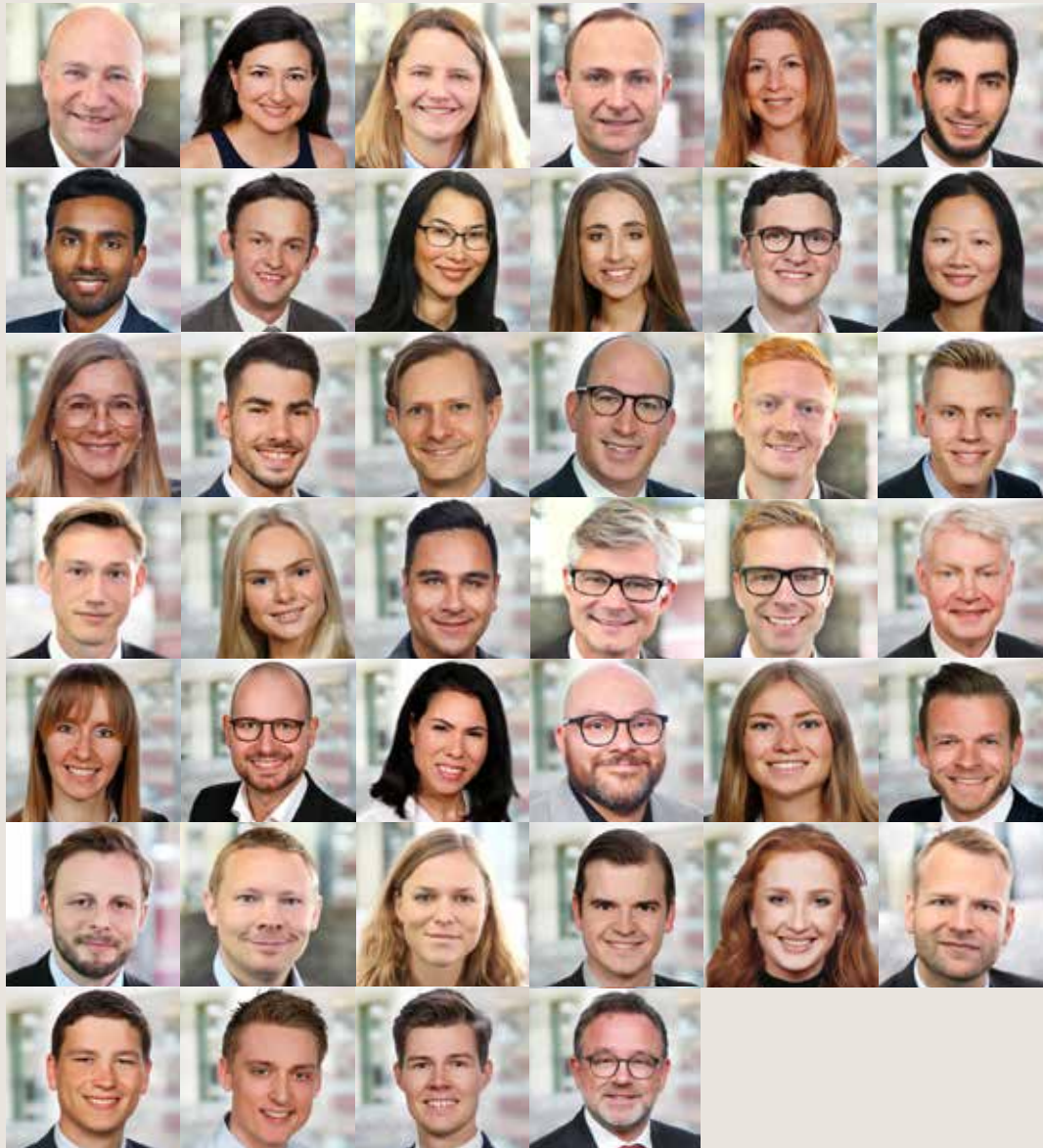
Matilde Dyrberg Stjernstrøm



"The Capital Four Graduate Program has helped me enhance my technical skills to develop customized investment solutions for our global investor base. The secondment to our US office has enabled me to build long-lasting relationships with our colleagues across the firm."

Moritz Leinward





### Building careers: The student experience at Capital Four

Students have always been an integral part of our workforce, and we take immense pride in nurturing our own talent.

All students become part of a diverse team where collaboration is central to our operations. They are offered an extraordinary opportunity to acquire hands-on skills in finance and credit asset management, supported by the guidance of experienced colleagues and our extensive learning and development programs.

Being a student at Capital Four provides a realistic insight into our workplace culture and operations. On numerous occasions, the student role at Capital Four has served as a stepping stone towards positions with leading consultancies or banks such as Boston Consulting Group, McKinsey, and Morgan Stanley.



# Workforce

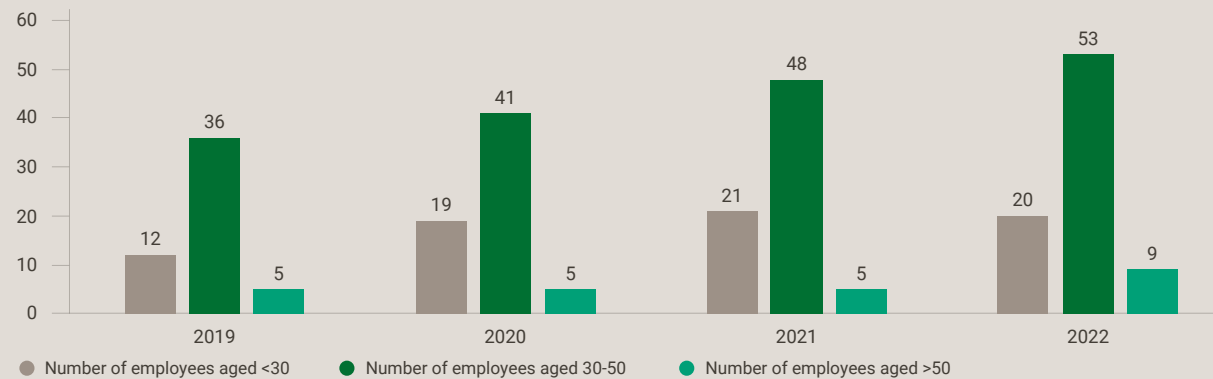
In 2022, we continued to expand our workforce, which grew 11% compared to 2021. Simultaneously, our retention rate has remained high, averaging 93% over the past five years. This consistency has helped to solidify the Capital Four culture.

**Table 4: Employees**

	2018	2019	2020	2021	2022
<b>Total FTE</b>	46	53	65	74	82
<b>Total headcount</b>	62	89	102	107	114
<b>Share of employees with international background</b>	26%	26%	28%	29%	29%
<b>Employee turnover</b>	2.0%	9.0%	5.0%	8.7%	11.0%

Capital Four has a diverse workforce with 29% of employees coming from international backgrounds. With a majority of employees aged 30-50 years, the company has a predominantly young workforce, as 25% of employees are below the age of 30, 64% belong to the 30-50 age group, and 11% are above the age of 50.

**Figure 7: Employee groups**



**Table 5: Gender balance**

Gender balance (total)	2018	2019	2020	2021	2022
<b>Male</b>	72%	72%	71%	69%	65%
<b>Female</b>	28%	28%	29%	31%	35%
Gender balance (management)	2018	2019	2020	2021	2022
<b>Male</b>	82%	75%	75%	75%	75%
<b>Female</b>	18%	25%	25%	25%	25%
Gender balance (Board of Directors)	2018	2019	2020	2021	2022
<b>Male</b>	100%	100%	100%	100%	100%
<b>Female</b>	0%	0%	0%	0%	0%

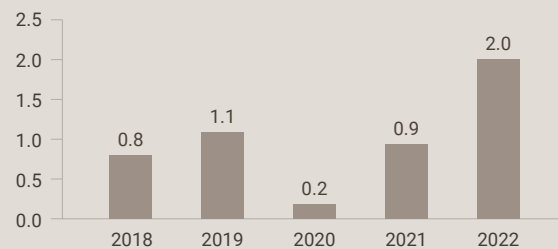
## CAPITAL FOUR

The ongoing wellbeing of our employees is of paramount importance to us, and we offer them a flexible working environment, with the possibility of working an average of two days a week from home or remotely as needed.

Last year, a Health and Safety committee was established at Capital Four with the objective of ensuring that employees are safe, healthy, and content in the workplace. As part of this process, a workplace survey was conducted, an exercise we carry out at least every three years. All employees were asked to evaluate their job satisfaction as well as their physical and mental wellbeing. The results of the survey were evaluated by the Capital Four Health and Safety committee.

In 2022, we observed an increase in the number of sick days compared to previous years. It's worth noting, however, that the figures in prior years were, to some extent, affected by the COVID-19 pandemic.

**Figure 8: Sick leave per FTE (days) per year**



Capital Four offers attractive pension contributions and private health insurance to FTEs. As part of our commitment to long-term relationships with our employees, FTEs participate in the company's long-term incentive program. This allows our employees to share in the long-term value creation, in addition to receiving their salary, bonus, pension, and insurance benefits.



# Education and training

We encourage the development of our employees and support ongoing education, skillset improvement, and professional development. This support extends to all employees attending relevant training courses, obtaining professional qualifications, and subscribing to pertinent professional literature and journals.

In 2022, we continued to educate our investment staff on key sustainability areas, focusing on themes such as new regulatory requirements, SFDR implementation, and norm-based screenings. Strengthening the competencies of our employees through education will remain a key focus area in the coming years.

In previous years, Capital Four has actively engaged with Nordic universities such as Lund University and Copenhagen Business School (CBS), participating in and hosting various events to foster education and professional development. This collaboration includes sponsoring the CBS Finance Competition and partnering on the project titled "Integrating ESG and Illiquid Assets for Students and Business." Furthermore, Capital Four has worked with Lund University and the University of Copenhagen on master's thesis projects.

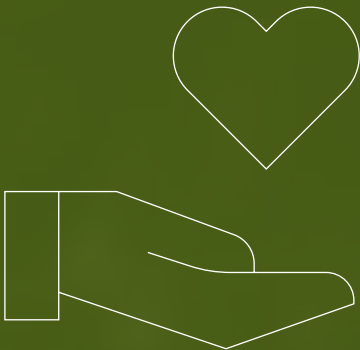
Capital Four's annual Credit Day, hosted in partnership with CBS, serves as a testament to this collaboration. The event brings together distinguished academics, discerning investors, and industry-leading practitioners for discussions on pivotal topics in the credit field, emphasizing a spirit of cooperation and knowledge sharing.

We also host in-house educational and networking events for students and young professionals to promote career development within Capital Four.

Additionally, we completed communication training for the Business Development team, the Project Managers, and the Partners. The objective of the training workshops is to continuously develop the participating Capital Four delegates into even better communicators and presenters. Through highly interactive workshops, the focus has been on designing and delivering successful presentations, meetings, and conversations by deepening an understanding of how to move people and perceptions.

# Charitable Giving

At Capital Four, we are committed to supporting various non-profit organizations. Each year, our employees decide which charities the firm should support with a monetary donation. Typically, these charity donations are made at the end of the year. However, due to the tragic events unfolding in Ukraine, Capital Four decided to donate a specific amount per employee to the Red Cross in March 2022, earmarked specifically for Ukraine.





# Governance

Conducting business with integrity

## Ambition and approach

Capital Four believes that robust governance and ethical business practices are fundamental to ensuring our clients' and stakeholders' trust and maintaining successful investment activities.



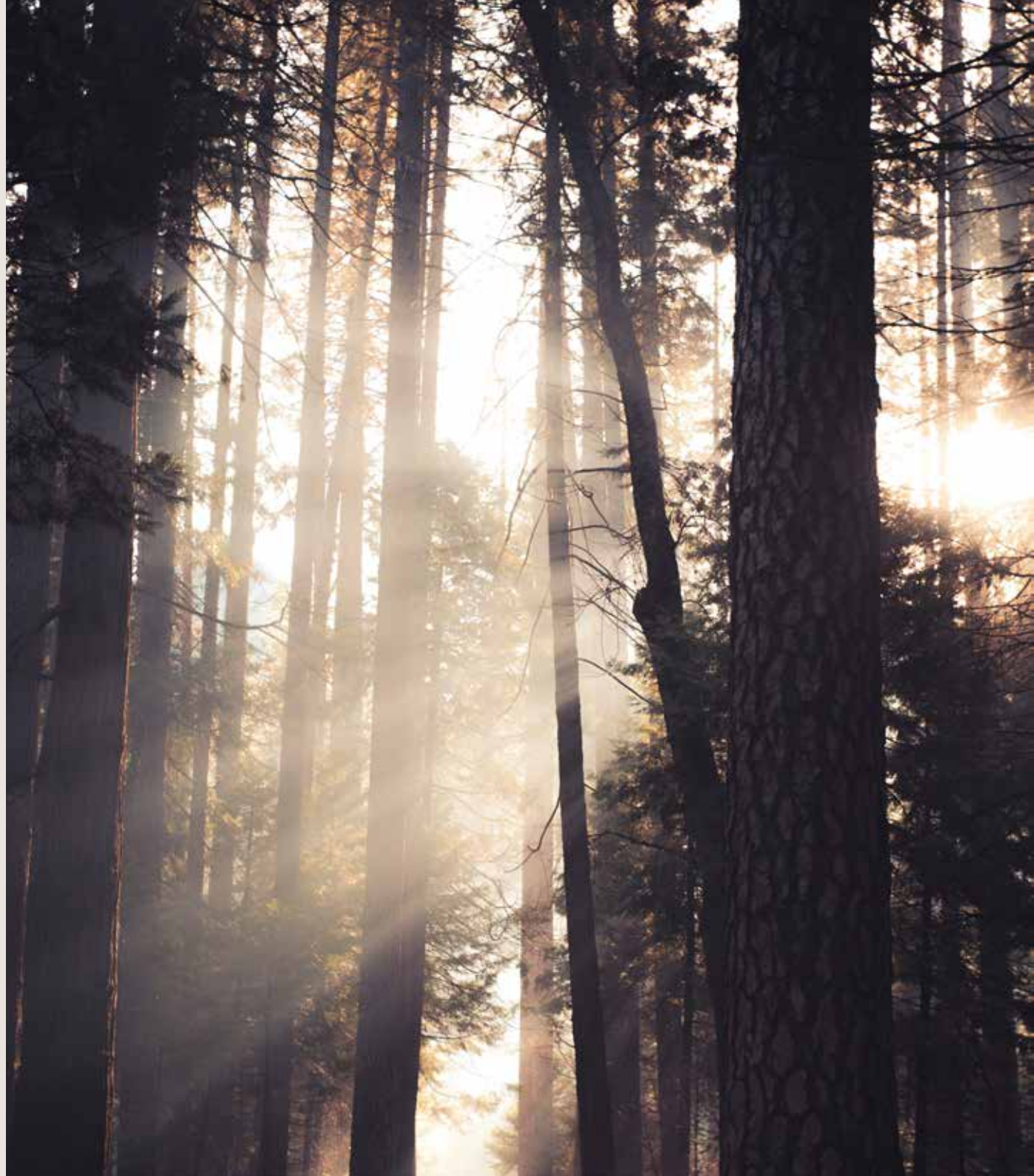
# Governance Framework

All employees are responsible for complying with our Code of Conduct, as well as all Capital Four policies and procedures relevant to their respective positions.

Every employee is provided with an overview of the firm's policies and procedures as part of the mandatory annual compliance training. This training covers the firm's Code of Conduct and other relevant policies and procedures as deemed necessary.

All new employees attend information meetings to be briefed about the activities across various departments at Capital Four, such as investment, research, trading, human resources, compliance, business development, and legal. Our employee handbook outlines employees' rights, benefits, and expected conduct.

Capital Four's focus on responsible business conduct extends to our suppliers. We require all suppliers to adhere to the principles laid out in the UN Global Compact, a requirement we introduced for all new suppliers we engaged with since December 2021. If Capital Four becomes aware of any serious issues related to breaches of the UN Global Compact's principles by a supplier, we initiate dialogue with the supplier. If we don't find the supplier's response to adequately address the issue, we may terminate the contract. Capital Four relies on policy-level assurance provided by the suppliers and does not perform our own supplier audits.





# Remuneration

The Boards of Directors of the entities in Capital Four Holding have adopted a joint remuneration policy with the objective of attracting, retaining, developing, and rewarding employees who contribute to creating value for Capital Four and its clients. The policy ensures that the overall remuneration model aligns with sound and effective risk management principles.

The members of the Board of Directors of Capital Four are compensated only with fixed remuneration, if any, and not with any variable remuneration. The members of the Management Board of Capital Four are compensated with both fixed and variable remuneration components, subject to the limitations of variable remuneration. No employee at Capital Four is entitled to remuneration of EUR 1 million or more per financial year.

Table 5: CEO pay ratio

	2018	2019	2020	2021	2022
CEO pay ratio - base salary	288%	288%	302%	289%	369%

# Risk management

Capital Four maintains a strong focus on risk assessment. Regular assessments are conducted to evaluate Capital Four’s potential for being exploited for money laundering or terrorism financing. We assess the risks of bribery, corruption, and money laundering in accordance with our internal policies and procedures as we conduct business.

Know Your Customer (KYC) procedures are carried out on every current and potential client. We have a whistleblower system in place for any suspicion of financial compliance violations related to our organization. Looking back on 2021, we expanded the whistleblower system to cover harassment matters more comprehensively, acknowledging the fact that such issues can often be challenging to report through conventional channels.

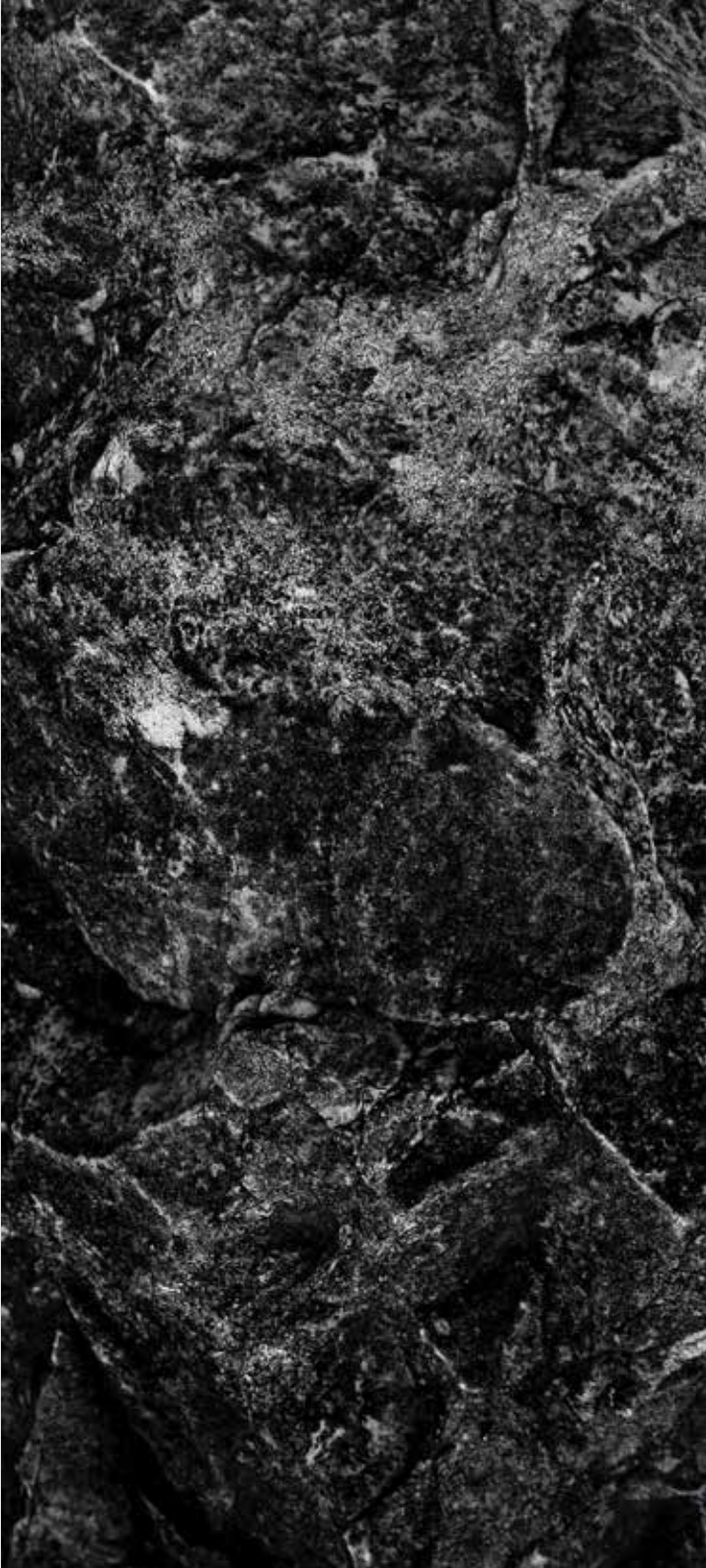
Additionally, our gifts, events, and lobbying policy, a key element of our Code of Conduct, continued to uphold its purpose in preventing any conflicts of interest last year. Upholding our commitment to integrity, we conducted annual training for our employees in 2022, as we always do, focusing on issues related to anti-corruption and bribery. By maintaining these processes and measures, we continue to reinforce our pledge to uphold the highest ethical standards at Capital Four.

IT security risks and cyberattacks continue to be a significant issue for businesses today. The Capital Four Group Policy for IT Security outlines the security principles for our cybersecurity system and the principles that employees must follow to keep

confidential information safe. These security principles include two-factor authentication in systems at all times. Cybersecurity systems and policies are continuously updated to adapt to new and emerging cybersecurity threats. The Capital Four Group Policy for IT Security is provided to employees upon their employment commencement. Furthermore, all Capital Four employees receive annual training on cybersecurity policies.

Table 6: Compliance incidents and training

	2018	2019	2020	2021	2022
Number of incidents of non-compliance with data protection and privacy policies and procedures	0	0	0	0	0
Percentage of employees trained in cybersecurity guidelines and policies	100	100	100	100	100





# UN Global Compact Progress Report

## Declaration of support

To our stakeholders,

I am pleased to confirm that Capital Four reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment, and Anti-Corruption.

In this annual Communication on Progress, we disclose our continuous efforts to integrate the Ten Principles into our business strategy, culture, and daily operations, and contribute to United Nations goals, particularly in the Sustainable Development Goals.

Sincerely yours,

**Sandro Näf**

CEO, Portfolio Manager & Co-founder



## Human rights

- 1) Businesses should support and respect the protection of internationally proclaimed human rights in their area of influence; and
  - 2) make sure that they are not complicit in human rights abuses.
- Responsible Investing
  - ESG in the Investment Process

## Labour

- 3) Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
  - 4) the elimination of all forms of forced and compulsory labour;
  - 5) the effective abolition of child labour; and
  - 6) the elimination of discrimination in respect of employment and occupation.
- Responsible Investing
  - ESG in the Investment Process

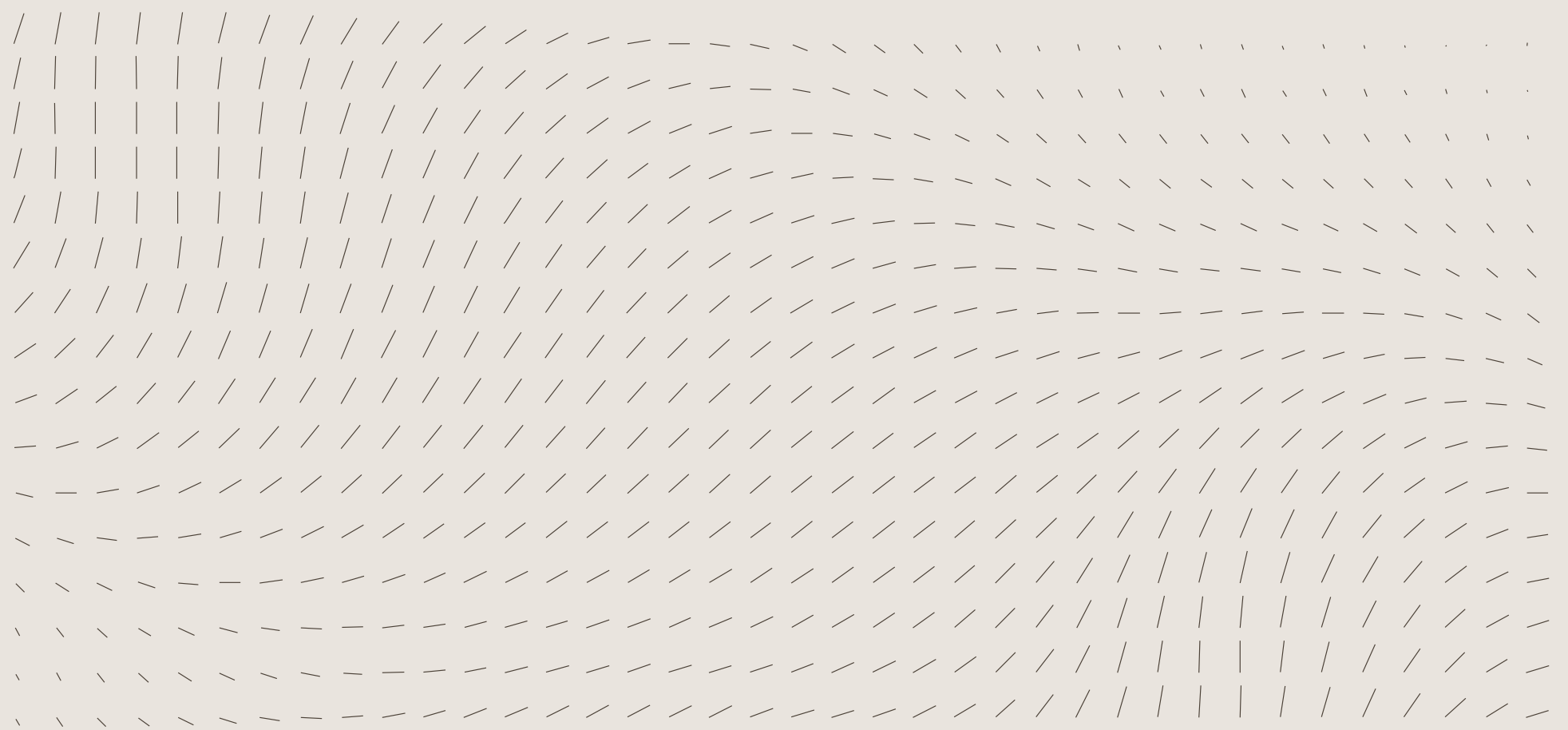
## Environment

- 7) Businesses should support a precautionary approach to environmental challenges;
  - 8) undertake initiatives to promote greater environmental responsibility; and
  - 9) encourage the development and diffusion of environmentally friendly technologies.
- Responsible Investing
  - ESG in the Investment Process
  - Sustainability of Corporate Activities
  - ESG Investment Cases
  - Engagement Cases
  - Carbon Data
  - TCFD

## Combating corruption

- 10) Businesses should work against corruption in all its forms, including extortion and bribery.
- Responsible Investing
  - ESG in the Investment Process
  - Sustainability of Corporate Activities

# Appendix



# Data Methodology

## Capital Four's Carbon Footprint

The GHG emissions of Capital Four are calculated according to the Greenhouse Gas Protocol. All GHG emissions are reported as tonnes of CO<sub>2</sub> equivalents (t.CO<sub>2</sub>e), including CO<sub>2</sub>e emissions from energy consumption, business travel, and paper consumption. The data covers Capital Four's corporate activities in Copenhagen and is calculated according to the location-based approach of the GHG Protocol.

The total energy consumption of Capital Four is sourced from Capital Four's internal accounting system. Only electricity consumption is included in the CO<sub>2</sub>e calculation from energy consumption.

## Carbon Data Methodology

The emission factors used for electricity consumption are based on the average emission factors for Denmark, sourced from the International Energy Agency (IEA).

The total number of kilometers of business travel is sourced from Capital Four's accounting system. For the CO<sub>2</sub>e calculation, all kilometers of business travel are assumed to have taken place via plane, as it has not been possible to divide data into business travel by air and by land. The total paper consumption is sourced from Capital Four's internal accounting system.

The emission factors used for calculating the CO<sub>2</sub>e emissions from business travel and paper consumption are sourced from the UK Government, Department of Environment, Food and Rural Affairs (DEFRA).

## Waste and Recycling

The total waste generation and the amount of waste for recycling are estimated based on the amount of waste Capital Four generates daily.

## Number of Employees

The number of FTEs, employee headcount, and employee groups are sourced from our HR System, Mindkey. All employees are registered in this system. FTEs are calculated using the "ATP methodology".

The percentage of employees with an international background is calculated as the number of non-Danish employees employed by Capital Four, divided by the population of salaried employees in Capital Four.

## Gender balance is sourced from our HR System, Mindkey.

Gender balance for management is sourced from our HR System, Mindkey, and calculated by counting the number of male and female employees in the extended management group.

## Gender Pay

The average unadjusted gender pay gap is calculated as the difference between the average gross hourly earnings of male and female paid employees, as a percentage of the average gross hourly earnings of male paid employees, based on the monthly full-time base salary across all salaried employee groups.

## Education Hours

The total number of education hours is sourced from our manual registration of education pursued by employees and is calculated manually.

## CEO Pay Ratio

The CEO pay ratio is calculated as the annual total compensation for the CEO, compared to the median annual total compensation for all employees (excluding the CEO).



# ESG in the Investment Process

## 1. Research and Company Screening

Capital Four has built an extensive knowledge of general industry themes and issuer-specific topics, as well as strong processes for knowledge-gathering and efficient information storage. We place great emphasis on continuing to develop our in-house analytical capabilities in terms of talent, data and information sources and processes. Improving our access to quality ESG data is a high priority, and we rely on internally gathered information, ESG due diligence questionnaires, external vendors and estimations to build our ESG data analytics. Capital Four's company screening includes:

- Product screening based on revenue from sensitive product lines which can lead to exclusion depending on fund/mandate exclusion criteria. Across all funds/mandates, Capital Four will not invest in companies which are involved in the production of controversial weapons, are producers of tobacco or generate more than a minimal part of their revenue from coal mining, coal-based energy production, arctic drilling or involvement in oil sands extraction.
- Screening of all names against EU, UN and OFAC sanction lists. We also screen all names for violations of the UN Global Compact and related conventions. Capital Four will assess violators flagged by external screening and will exclude a company if we do not find they take reasonable action to address the issue.
- Capital Four does not make direct investments in companies that engage in aggressive tax planning, where aggressive tax planning means the intentional exploitation of

technicalities in one or more tax jurisdictions or inconsistencies between tax regimes or structures that are contrary to the overall intentions of the tax legislation applicable to those regimes or structures.

## 2. Company Scoring

For a company to be considered ESG investable by Capital Four, it must obtain an ESG score within the threshold of Capital Four's ESG scoring framework. A company is deemed non-investable if 1) the total score is  $\geq 4.0$ ; or 2) the total score is  $\geq 3.75$  and the company scores 5 in E, S or G. We have applied the framework to our investments and not to the full investable universe. However, we estimate that our minimum ESG score threshold in conjunction with our top-down screening would eliminate around 3-5% of the investable universe. This is in line with our general approach to responsible investment, where we do find value in transitional companies.

ESG scores are captured in a scoring template in a structured format that feeds into the general investments process at Capital Four. All information in the scoring framework is stored in our proprietary research management system. The scoring template is shown in figure 6 below. We score the ESG profile of a company on a scale from 1 to 5, where 1 is the best ESG score. We start with a neutral rating of 3 and then upgrade or downgrade the specific sub-scores. The total ESG score of a company is the simple average of the general sub-score and the company-specific sub-score.

Furthermore, the PAIs on sustainability factors of our investments are identified and measured in accordance with the SFDR. Each PAI links back to and underpins the material sustainability risks we identify in our ESG scoring model. Capital Four considers PAIs before making an investment decision.

### The general score includes:

External ESG score from a service provider for reference (if such a score is available).

- Company ESG assessment/involvement evaluates the company's overall ESG awareness from a management or owner perspective. This assessment is based on how well the company identifies, discloses, and shows how they manage ESG risk in general. It also takes into account whether the company is a member of relevant collaborative initiatives, and if it publishes sustainability reports, answers ESG due diligence questionnaires, etc.
- Industry risk exposure reflects Capital Four's assessment of the relevant industry's general exposure to ESG issues compared to other industries.
- An assessment of country exposure to ESG depending on where the relevant company is based.

### Company specific risk:

A company is scored on environment, social and governance relative to other companies within the industry. The subtotal is calculated as a simple average of the E, S and G scores.



## CAPITAL FOUR

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When considering the materiality of ESG factors, Capital Four has been inspired by SASB's mapping of material industry specific ESG impacts and other sources.

In line with SASB, we see these impacts arising from the companies' production of goods and services, including management of the environmental and social capital, and the impacts that sustainability challenges have on innovation, business models, corporate governance and vice versa. We have also sourced inspiration from rating agencies and a number of ESG data providers in order to establish a list of industry-specific ESG factors. In conjunction with the industry investment analysts at Capital Four, we have assessed which of these factors we at Capital Four consider to be material for different industries. We have developed a description of each ESG factor in order to shape a common understanding of the risks and opportunities we associate with the individual ESG factors. The ESG factors we consider material for each industry are shown in table 2.

How the individual company manages the industry-specific ESG risk exposure is assessed relative to the industry it is operating in, and is an essential part of the core company analysis performed by the investment analysts.



Table 7: Material ESG risk factors, industry level

	Material sustainable risk factors																			
	Auto	Banks	Basic industry	Capital goods	Chemicals	Consumer goods	Financial service	Health care	Insurance	Leisure	Media	Packaging goods	Pharma	Real estate	Retail	Services	Software & IT	Technology	Telco	Transportation
Environmental	High	Medium	High	Medium	High	Medium	Low	Low	Medium	Low	Low	High	Low	Medium	Medium	Low	Low	Medium	Low	High
GHG emission	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Resource management	•		•	•	•	•		•		•		•		•	•	•	•	•		•
Material sourcing											•									
Toxic emission and waste	•		•		•	•							•							•
Waste management															•					•
Emission & biodiversity			•																•	•
Product lifecycle environmental impact				•		•						•								
Climate change vulnerability								•												
Responsible investment								•												
Financing environmental impact		•					•													
Opportunity in emission-reducing tech	•																			
Opportunities in clean tech																				
Opportunities/risk in efficiencies and renewables																•	•	•		•
Social																				•

	Material sustainable risk factors																			
	Auto	Banks	Basic industry	Capital goods	Chemicals	Consumer goods	Financial service	Health care	Insurance	Leisure	Media	Packaging goods	Pharma	Real estate	Retail	Services	Software & IT	Technology	Telco	Transportation
Social	High	Medium	Medium	Medium	High	High	High	High	Medium	High	High	Low	High	Medium	Medium	High	High	High	Medium	High
Human capital	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Privacy and data security							•	•	•	•	•				•	•	•	•	•	
Product safety and quality	•	•		•	•	•		•		•		•	•		•				•	•
Product governance/labeling and selling practices						•		•	•		•		•	•	•	•				•
Selling / lender practises / financial product safety		•					•													
Affordability/availability																				•
Supply chain management			•	•		•				•		•			•			•		•
Product impact on society														•						
Community relations			•		•															•
Access to basic services							•	•			•		•			•				•
Access to finance / responsible investment		•																		
Responsible investment						•														
Opportunities in nutrition and health															•					

	Material sustainable risk factors																			
	Auto	Banks	Basic industry	Capital goods	Chemicals	Consumer goods	Financial service	Health care	Insurance	Leisure	Media	Packaging goods	Pharma	Real estate	Retail	Services	Software & IT	Technology	Telco	Transportation
Governance	Medium	High	Medium	Low	Medium	Medium	High	Medium	High	Medium	Medium	Low	High	Medium	Medium	Medium	Medium	Medium	Medium	Low
Corporate governance	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Corruption / instability / bribery	•		•					•					•						•	•
Competitive behaviour								•		•			•		•		•	•	•	
Business ethics	•	•	•				•	•	•	•	•		•	•		•	•	•	•	
Political interference	•																			
Systematic risk management / risk control systems	•			•		•		•									•	•	•	

Assessing CLO Manager Sustainability

Sustainability risk in Collateralized Loan Obligation (CLO) investments is assessed through a systematic bottom-up approach, considering both qualitative and quantitative aspects. The qualitative assessment consists of a manager scoring and a structural feature analysis. Whereas the quantitative assessment is reflected in our collateral analysis.

Manager assessment

The Capital Four ESG approach to CLO investments takes departure at the level of the individual manager. The manager assessment is the core of the qualitative ESG assessment. For this purpose, Capital Four has developed a proprietary scoring framework specific to the ESG evaluation of CLO managers to resolve and prevent material ESG risk.

As shown in Figure 7, this qualitative assessment comprises three fundamental elements: I) Governance and corporate strategy, II) ESG integration in the investment process, and III) Technology and infrastructure used by the manager.

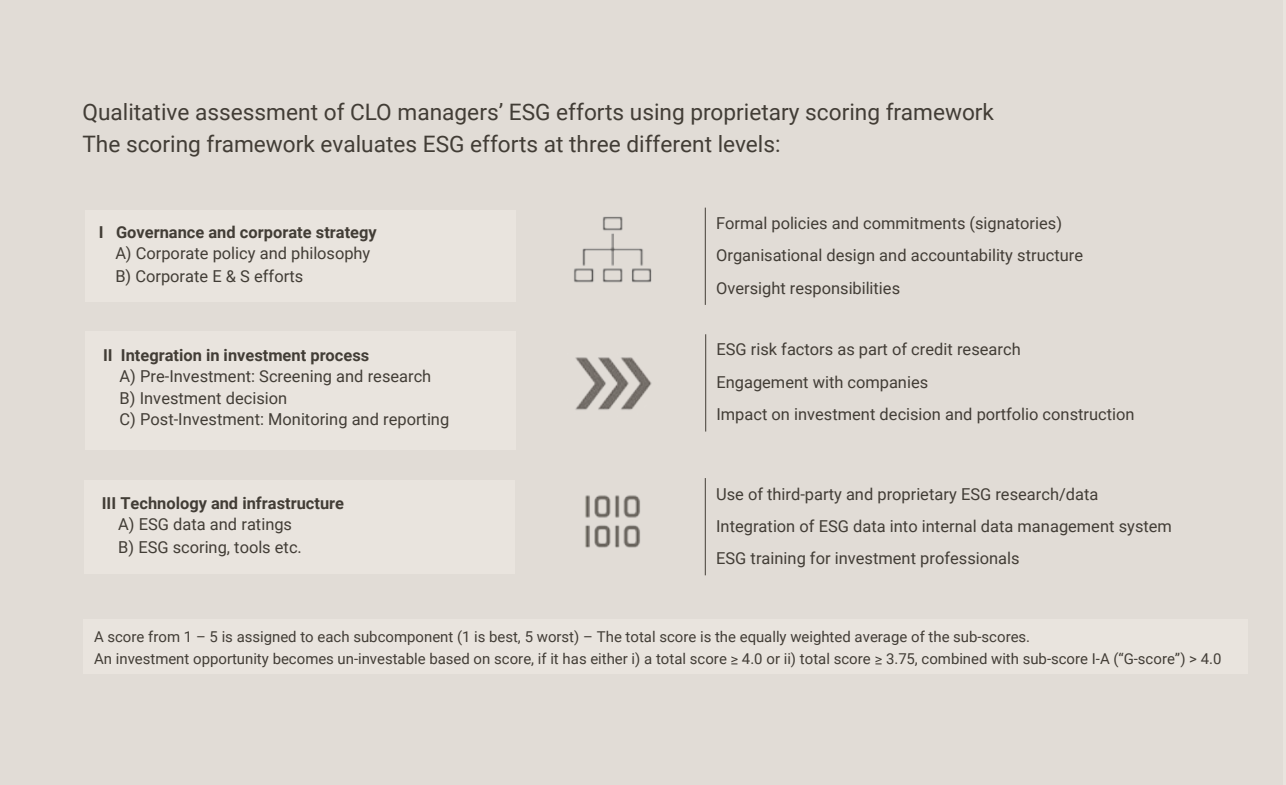
Aligned with Capital Four’s corporate process for ESG assessment and scoring, each element is assigned a score from 1 to 5. The point of departure is a neutral score of 3 which is notched up or down, depending on the quality of a manager’s ESG efforts relative to peers.

The manager assessment is summarized in an overall ESG score which is the equally weighted average of all sub-scores.

Structural feature assessment

As part of the deal-level ESG assessment each CLO prospectus is screened for ESG-focused wording. Of particular interest are features such as negative exclusion, positive screening, or a manager’s commitment to report on ESG risks in the portfolio. The inclusion and the phrasing of such elements offer additional insights on a manager’s ESG commitment. The identified character-

Figure 9: Manager assessment



istics are captured in more depth in the above outlined qualitative manager assessment and in the following quantitative analysis.

Collateral analysis

The formation of a holistic and robust opinion on a manager’s ESG-related efforts require quantitative collateral assessment. This procedure complements the preceding qualitative features of our ESG approach. Collateral assessment presents the inte-

gration of carbon data into the CLO investment analysis. Through examining the exposure to carbon intensive companies, our structured credit analysts assess climate-related risks. For each CLO we calculate the WACI, based on our work with carbon data of the underlying obligors. Capital Four’s ESG approach to CLO investments is based on detailed and rigorous assessment of both qualitative and quantitative information on CLOs and CLO managers. The key outputs of our ESG approach – a concrete ESG score

from the manager assessment and a CLO's WACI – summarize our analysts' opinion on sustainability and climate-related risks. These tools are used side-by-side, reflecting both qualitative and quantitative considerations.

### Engagement

As a part of our standard due diligence, Capital Four regularly has meetings with managers where we also engage in ESG topics. It is important for Capital Four to push for an ESG focused agenda amongst the CLO managers we invest in. We engage on environmental, social and governance topics as well as on integration of ESG in investments either through our meetings with managers or by requesting information through questionnaires. In terms of environmental topics, Capital Four often request information on environmental initiatives such as decarbonization targets on manager level. For social and governance topics, Capital Four requests information on e.g., diversity and inclusion, health and safety or board structure and commitments. Capital four seeks to work with managers that are also dedicated to their ESG efforts and will therefore continue to push for further ESG engagement.

### Principle Adverse Impacts

For all PAIs, we analyse the data and, where necessary, engage with the concerned companies, particularly if their data is an outlier or unavailable. As part of our efforts in sustainable investments, we put special emphasis on PAI 3, 10 & 14 for our portfolio. For PAI 3, this implies that we track carbon emissions over revenue for all CLO investments for scope 1, 2 and 3 based on industries. For PAI 10 & 14, this implies that all portfolio CLO managers must follow the UN Global Compact principles and OECD Guidelines in their investment decisions and must exclude investments with exposure to controversial weapons.

### Net Zero Asset Management initiative & UN Principles for Responsible Investments

As a member of the NZAM initiative, Capital Four is dedicated

to further net zero initiatives through engagement with CLO managers. Capital Four work rigorously to align our investments with the scope of limiting warming to 1.5° Celsius and take our engagement on this topic very seriously. Furthermore, through our commitment to the NZAM initiative, Capital Four tries to invest in managers that are also committed to the NZAM initiative. Subsequently, a CLO manager's commitment to NZAM is already now factored into our qualitative ESG assessment. Additionally, Capital Four has been a signatory of the UN PRI since 2019 as we wish to be a part of furthering responsible investment. As with the NZAM initiative, CLO managers commitment to the UN PRI is also incorporated in our qualitative ESG assessment.

## 3. Integration in Investment Committee

A key element in Capital Four's investment process is the company-specific credit write-up produced by investment analysts, which includes ESG analysis and scoring. The credit analysis process is aggregated and presented in a quantitative framework in conjunction with the credit write-up.

### ESG integration in investment decisions

The analysis is performed by investment analysts in Capital Four's research team, and is presented to Capital Four's portfolio managers in the Investment Committee for decision making. Any conclusions agreed upon by the Investment Committee, incl. material ESG factors and impacts, are documented in an updated version of the credit write-up.

In our multi-asset credit strategies, we select individual credits and allocate among different credit asset classes by combining high yield, senior loans and structured credit. Identifying sustainability factors on individual credits and aggregating ESG data across credit asset classes makes it possible for Capital Four's portfolio managers to integrate ESG in both the relative value allocation decisions as well as security selection decisions.

## 4. Monitoring

Capital Four's research team is responsible for the ongoing monitoring of existing investments. Monitoring of developments on material sustainability factors and engagement with the issuer is integrated in the ongoing due diligence for the investment, including monitoring of financial statements, news flow, industry trends, regulatory changes and dialogue with management or sponsor.

The individual ESG scores will be reviewed at least yearly, but can be reassessed at any given point when new information is received.

The ESG data gathering, analysis and scoring further helps provide the analyst with key information and focus areas for engagement with the underlying issuer.



# Data tables – Capital Four's Corporate Activities

## Environment

Data point	Unit	2018	2019	2020	2021	2022
CO2 from travel by company car	tonnes CO2e	-	-	-	0.9	2.6
Scope 1 GHG emissions	tonnes CO2e	-	-	-	0.9	2.6
CO2 from electricity consumption	tonnes CO2e	15.2	14.2	15.2	14.1	15.0
Scope 2 GHG emissions	tonnes CO2e	15.2	14.2	15.2	14.1	15.0
CO2 from travel by plane	tonnes CO2e	232.2	172.2	21.3	13.9	115.8
CO2 from paper consumption	tonnes CO2e	4.7	6.8	4.7	6.0	66.1
Scope 3 GHG emissions	tonnes CO2e	236.9	179.1	25.9	19.9	181.8
Total Scope 1 - 3 CO2e (tonnes)	tonnes CO2e	252.1	193.3	41.1	29.6	199.5
Total CO2 per FTE (tonnes)	tonnes CO2e	5.48	3.65	0.63	0.40	2.43
Total electricity consumption (purchased electricity)	MWh	72.9	93.4	90.1	91.2	97.0
Annual business travel by plane	km	1,270,637	952,793	116,911	75,654	630,512
Annual use of company cars	km	-	-	-	13,000	22,000
Total waste generation	tonnes	1.26	2.39	1.65	2.45	6.58
Waste for recycling*	tonnes	0.18	0.58	0.28	0.27	3.57
Waste per FTE*	tonnes	0.03	0.05	0.03	0.03	0.08

## Social

Data point	Unit	2018	2019	2020	2021	2022
Total FTE	number	46	53	65	74	82
Total headcount	number	62	89	102	107	114
Gender balance - total	percentage women	28%	28%	29%	31%	35%
Gender balance - management	percentage women	18%	25%	25%	25%	25%
Gender balance - executive management	percentage women	0%	0%	0%	0%	0%

\* Change in accounting methodology makes historical data difficult to compare

Gender balance - Board of Directors	percentage women	0%	0%	0%	0%	0%
Female employees aged <30	number	1	2	4	3	9
Male employees aged <30	number	6	10	15	18	11
Female employees aged 30-50	number	11	13	16	19	18
Male employees aged 30-50	number	20	23	25	29	35
Female employees aged >50	number	1	1	1	1	2
Male employees aged >50	number	3	4	4	4	7
Average unadjusted gender pay ratio - yearly pay	percentage	110%	110%	111%	111%	133%
Share of employees with international background	percentage	26%	26%	28%	29%	29%
Sick leave	number of days	37	58	12	70	160
Sick leave per FTE	number of days	0.8	1.1	0.2	0.9	2.0
Sick leave per headcount	number of days	0.6	0.7	0.1	0.7	1.4
Employee turnover	percentage	2.0%	9.0%	5.0%	8.7%	11.0%
Total number of hours spent on education	number of hours	78	749	518	415	2494
Education hours per FTE	number of hours	1.7	14.1	8.0	5.6	30.4
Education hours per Headcount	number of hours	1.3	8.4	5.1	3.9	21.9

## Governance

Data point	Unit	2018	2019	2020	2021	2022
CEO pay ratio - base salary	CEO to average employee	288%	288%	302%	289%	369%
Number of incidents of non-compliance with data protection and privacy policies and procedures	number	0	0	0	0	0
Percentage of employees trained in cybersecurity guidelines and policies	percentage	100%	100%	100%	100%	100%

# Data tables – PAI

PAIs	Unit of Measure	High Yield	Senior Loans	Multi-Asset Credit	Private Debt
PAI 01: Scope 1 GHG emissions	tonnes CO2e	202,869.95	87,220.28	79,348.57	26,115.80
PAI 01: Scope 2 GHG emissions	tonnes CO2e	106,879.58	57,153.69	52,232.92	15,168.33
PAI 01: Scope 3 GHG emissions	tonnes CO2e	1,405,506.09	555,642.02	652,979.96	527,834.00
PAI 01: Total GHG emissions	tonnes CO2e	1,628,485.81	696,705.51	758,893.85	569,174.99
PAI 02: Carbon footprint	tonnes CO2e /€M_EV	309.89	208.14	286.40	315.98
PAI 03: GHG intensity of investee companies	tonnes CO2e /€M_REV	525.62	361.12	445.75	345.87
PAI 04: Exposure to companies active in the fossil fuel sector	%	0%	1.53%	0.39%	0%
PAI 05: Share of non-renewable energy consumption and production	%	61.14%	62.35%	63.9%	69.91%
PAI 06: Energy Consumption Intensity per High Impact Climate Sector	GWh /€M_REV	0.28	0.35	0.37	0,00
PAI 07: Activities Negatively Affecting Biodiversity-sensitive Areas	%	0.64%	0.19%	0.54%	0%
PAI 08: Emissions to Water	tonnes /€M_EV	77.43	19.18	70.66	3.28
PAI 09: Hazardous Waste and Radioactive Waste Ratio	tonnes /€M_EV	14.89	3.29	14.83	0.99
PAI 10: Violations of UNGC principles and OECD Guidelines for Multinational Enterprises	%	0%	0%	0.01%	0%
PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines for Multinational Enterprises	%	0.63%	2.19%	0.83%	0.08%
PAI 12: Unadjusted Gender Pay Gap	%	8.83%	14.36%	11.32%	1.39%
PAI 13: Board Gender Diversity	%	25.33%	20.62%	23.54%	29.36%
PAI 14: Exposure to Controversial Weapons	%	0%	0%	0%	0%
PAI A1: Investments in companies without carbon emission reduction initiatives aligning with Paris Agreement	%	27.27%	40.04%	34.72%	24.29%
PAI A2 Insufficient Whistleblower Protection	%	0%	0%	0%	20.72%

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