
Engagement Policy



CAPITAL FOUR MANAGEMENT FONDSMÆGLERSELSKAB A/S
CAPITAL FOUR AIFM A/S
CAPITAL FOUR CLO MANAGEMENT K/S
CAPITAL FOUR CLO MANAGEMENT II K/S

(JOINTLY REFERRED TO AS "CAPITAL FOUR")

**CAPITAL
FOUR**

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

Capital Four believes active engagement helps us make better and more informed investment decisions. We believe it creates value for our investors and our investee companies, in addition to being aligned with our stewardship responsibilities under our commitment to UN PRI principles.

This policy (in the following referred to as the “Policy”) outlines how Capital Four engages with investee companies, our stakeholders and industry organisations.

The Policy is approved by the CEO of Capital Four. Capital Four’s ESG Committee is responsible for the maintenance of the Policy. The implementation of the Policy is the responsibility of Capital Four’s investment team together with ESG team.

The Policy applies to all Capital Four investment strategies and Capital Four will report on its engagement activities Capital Four’s annual Sustainability report.

Objective of Engagement

Capital Four's objective with engagement is to exert our influence to allow us to make better responsible investment decisions and achieve better outcomes leading to enhanced value for our client.

As a credit manager, Capital Four can use our position as an investor to engage with various issuers and stakeholders. We believe engagement can improve our insight, transparency, and business practices, thereby strengthening long-term sustainability and financial performance of the issuers we invest in. Engagement can thereby preserve or improve the risk-return and the investment performance, in line with our fiduciary duty as an investor, and we believe engagement can initiate change and improvements benefitting society and the environment as a whole.

Engagement Scope

Issuer Engagement. To achieve our objective in relation to individual investments, Capital Four is committed to engage with issuers in the Capital Four portfolio across our strategies and potential issuers based on prioritization.

Collaborative Engagement. Capital Four is an active participant in a number of industry forums and organisations, that focuses on various aspects of sustainability issues linked to investments. We believe collaborative engagement can enhance attention and thereby be a means to enforce sustainability outcomes. It is also an effective way to share knowledge, information and resources. Collaborative engagement can obtain our objectives at both individual investment level as well as support our strategic goals.

Stakeholder Engagement. Capital Four encourages an open dialogue with investors and other stakeholders to understand their requirements and priorities, promote best practices and inform of our sustainability efforts.



Engagement Goals

Based on our objectives, Capital Four has chosen to focus our engagements on the following:

Raise awareness of sustainability factors. We aim to raise awareness at issuer, sector and geographical level in terms of best practices for responsible business conduct, corporate governance, and environmental or social factors.

Transparency and disclosure. We aim to obtain better qualitative and quantitative disclosures on material ESG factors at both issuer and industry level, which can then be used to improve our investment process, risk return assessment and portfolio optimization. Furthermore, increases disclosures by issuers is directly aligned with regulatory requirements and investors' needs.

Environmental, Social and Governance characteristics and outcome. We aim to promote issuers' focus on specific E, S or G characteristics (often directly linked to a specific Capital Four strategy) in addition to encouraging positive sustainability outcomes and/or reducing negative impacts.

ESG risk assessment. We aim to influence issuers in their assessment and management of ESG risk, leading to better and more informed risk return assessment of the issuer and value creating opportunities.

Resolve controversies and issues. To ensure investments continues to be in compliance with Capital Four's Responsible Investment Policy, get comfortable that issues are addressed appropriately by the issuer, remedies are put in place and risk mitigants are carried out to reduce future risks.

Prioritization of Engagement

Capital Four prioritizes our engagement effort to make it impactful and to ensure resources are allocated appropriately. Prioritizations are continuously reviewed and it is based on:

Proprietary ESG scoring. Issuers are identified through our ESG scoring process based on sector materiality and with a focus on outliers or worst in class scores. We engage to address ESG risk management issues with the issuer with the aim of potentially improving the score and risk return profile of the issuer.

Impact achievement. Issuers are identified based on relative impact contributions, which can either mean a lack of disclosures, contribution outliers or where it is determined that better impact are reasonably achievable.

Position. Issuers are identified based on Capital Four's investment proportion of an issuer's capital structure, as this is believed to have an impact on the likelihood of achieving engagement objectives. Identification can also be based on the size of Capital Four's overall portfolio holding in addition to our relationship and history with the issuer and/or owner.

Engagement Process

At Capital Four we have established a structured plan on how we engage, which ensures we can track developments on each case throughout various stages. This provides a consistent method in defining the engagement objective upfront and creates a logic for reaching a conclusion, which potentially can influence the investment decision. Having a structured plan further enables us to measure the effectiveness of our influence with investee companies.

This approach allows Capital Four to formulate trigger points for actions and confirms alignment to the Engagement Policy, in addition to providing disclosure and reporting to our stakeholders.

Governance and Responsibilities

The engagement owner drives the engagement case with help from the ESG team. Portfolio managers and the ESG committee can be included in cases, if deemed necessary. The credit analyst is the initial engagement owner of engagement cases directly linked to issuers. Whereas the ESG team will be the engagement owner of engagements with a more collaborative structure.

Engagement cases can be triggered as part of our prioritization approach or as a result of a new issuance, material new information or controversies. The engagement owner must react promptly and follow the structured plan when cases are triggered.

All engagement owners are responsible for presenting the engagement case to the investment committee, when deemed relevant, and to perform a material impact analysis on the investment case. The investment committee has the sole discretion to make investment-related decisions, which can lead to rejection or investment of the issuer, or on a reactive basis, changes in position size or ultimately divestment. The investment committee can further set triggers on which certain investment related actions must be taken.



Review and Approval

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

Approved by the CEO on September 9th, 2022

Sandro Näf, CEO

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