ALGEBRIS INVESTMENTS

ESG & Responsible Investment Policy

2022

1. Introduction

Environmental, Social and Governance ("**ESG**") factors have become increasingly important in the financial services industry in recent years and Algebris Investments ("Algebris" or the "Firm") believes they are vital in driving sustainable growth and delivering a transition towards a greener and fairer economy.

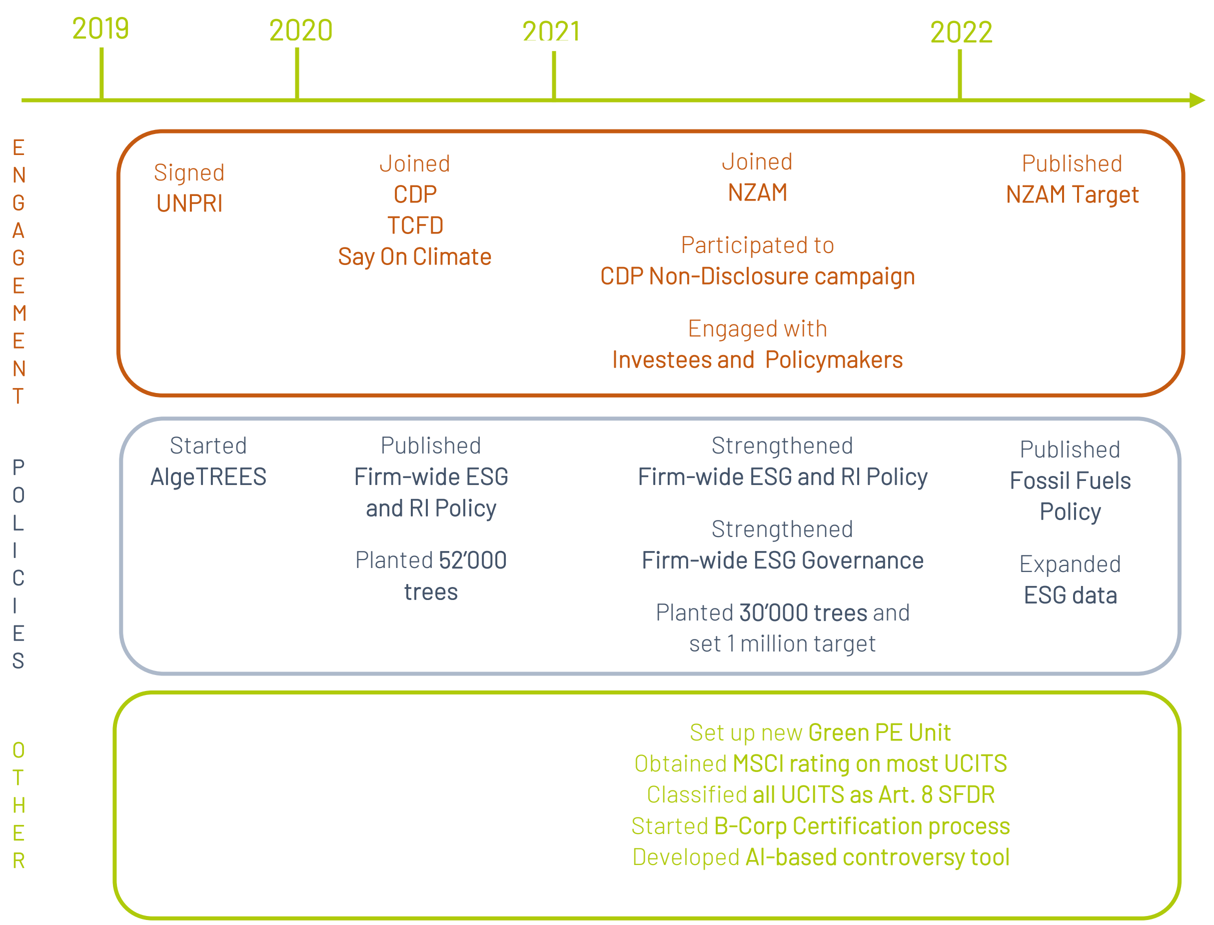
Sustainability and ESG considerations are deeply engrained into Algebris' business culture and embraced at every level of our organization. As a responsible asset manager, Algebris is aware that our impact on the environment and society manifests itself first and foremost through the choices we make in our investment decisions. We believe that supporting the transition to a more sustainable economy forms an integral part of our fiduciary duty, and are committed to strongly integrate ESG factors across all our investment processes and operations, through research, analysis, and decision-making.

This Policy covers the following topics:

- Algebris' approach to Responsible Investment (RI)
- Algebris' participation in ESG/RI collective initiatives
- Algebris' ESG governance and organizational structure
- ESG investment integration across Algebris' strategies
- Algebris' policy on stewardship and engagement
- Sustainability across the Firm's operations
- Algebris' Corporate Social Responsibility actions

The policy is maintained by the Firm's ESG Committee and is reviewed on an annual basis, or more frequently if required. For any queries in relation to this Policy, please consult the Firm's ESG Committee accordingly .

Algebris ESG Milestones



2. ESG Governance

2.1 ESG Committee

Algebris has robust governance arrangements in place to ensure that ESG and climate-related considerations are integrated in the Firm's culture across all key investment and business functions. Algebris CEO and Senior Management are the driving force in devising our climate strategy and ESG investment integration framework. Senior Management's strategic vision is operationalised by the Algebris ESG Committee – a key body of the Firm, comprised of the Group CEO and 15 professionals from across Algebris Investment, Business Development, Compliance, Legal and Risk teams, based in different regional offices across the Group.

The Algebris ESG Research Team, a core part of the ESG committee, is currently comprised of three analysts plus the Firm's Head of ESG and Policy Research. This team is responsible for all data analysis and research underpinning Algebris' ESG investment integration framework across all investment strategies. It is also in charge of drafting Algebris' periodic investors letter on investment-relevant ESG themes (*The Green Leaf*).

The ESG Committee brings together one Investment Team representative for each of Algebris strategies. These Investment Team representatives play a key role in the integration of climate-related considerations and ESG issues in the investment process. The involvement of members from Algebris Risk Team ensures that sustainability risks are also thoroughly integrated in investment decision-making and closely monitored.

The Algebris ESG Committee meets quarterly, with the participation of the group CEO and the Head of Risk. The Head of the ESG Committee is also a member to the Firm's EXCO-7 Committee – a senior executive body that meets monthly to discuss strategic issues for the Firm, including climate-related risks and opportunities, as well as the allocation of appropriate resources to the implementation of Algebris ESG strategy.

The ESG Committee is responsible for identifying climate-related risks and opportunities, for developing and implementing Algebris ESG investment integration framework across all strategies, and for overseeing all projects aimed at embedding sustainability considerations in the wider Firm's activities – including our AlgeTREES carbon offsetting project.

Table 1 – Algebris ESG Committee Members

Member	Responsibility	Team
Silvia Merler (Head of ESG Committee)	*Head of Algebris ESG and Policy Research* *Research, oversight, management of ESG strategy*	Research – Investment
Davide Serra	*Senior Management Strategic Oversight*	CEO
Tom Cotroneo	*Senior Management Risk Oversight*	Risk
Ginevra Bargiacchi	*Investment Integration – ESG analyst*	Research – Investment
Antonio Focella	*Investment Integration – ESG &Research analyst*	
Giancarlo Bollero	*Investment Integration – Financial Credit Strategies*	
John Lyon	*Investment Integration – Financial Equity Strategies*	
Lennart Langeling	*Investment Integration – Global Credit Strategies*	Investment
Elisa Natali	*Investment Integration – Italian Equities Strategies*	
Mariasole Bozzi	*Investment Integration – PD and PE Strategies*	
Dimitrios Karadimos	*Investment Integration – Risk management*	Risk
Solveig Leary	*Investor Communication; ESG third-party research*	
Karina Cooper	*Regulatory oversight and compliance*	Compliance
Joseph Beard	*Legal Oversight*	Legal
Lucy Challis	*Carbon Offsetting project execution*	Hakuna Matata

2.2 Resources and Training

Algebris has set up an ESG Research Team currently comprised of three analysts plus the Firm's Head of ESG and Policy Research. This team is responsible for all the data analysis and the research work underpinning Algebris' ESG investment integration framework across all investment strategies. The ESG Research Team is also in charge of drafting Algebris' periodic investors letter on investment-relevant ESG themes (*The Green Leaf*). In carrying out these tasks, the ESG Research Team relies on a variety of ESG data sourced from specialised third-party providers, as well as from data and research from NGOs and other stakeholders, on specific themes (Table 3).

Table 2 –ESG Data used by Algebris

Provider	Service
S&P - RobecoSAM	*ESG scores Questionnaire-level ESG KPIs. S&P Global Product Involvement Controversy and Questionnaire.*
S&P - Trucost	*Environmental metrics and priced externalities. Carbon data in line with GHG protocol standards. Environmental Climate Risk Models: 2 Degree Alignment; Carbon Earnings at Risk; Physical Risk. Positive Impact: SDG Green Revenues.*
Sustainalytics - Morningstar	*Product Involvement data and research.* *Global Standard Screening*
Moody's – Vigeo Eiris	*ESG scores, data, and research for all sectors globally.*
MSCI	*Global Norms Screening and Fund Reporting*
Autonomous	*Data on banks' green financing*
CDP	*Data from the Carbon Disclosure Project (CDP) annual questionnaire*
Banktrack / RAN	*Data from the annual RAN Report on banks' financing and exposure to fossil fuel companies*
Urgewald	*Data from Global Coal Exit List and, Global Oil and Gas Exit List*
RavenPakck	*News Analytics*

Algebris' ESG Research Team has also worked jointly with the Firm's Big Data Team on a proprietary AI/Big Data-based tool to monitor the insurgence of ESG controversies on portfolio names in real time. The proprietary tool leverages Natural Language Processing and distributed data-processing technologies to conduct large-scale news tracking and identify controversial events related to investees. The tool scans through over 17,000 news stories linked to our portfolio companies daily, using data from news analytics provider RavenPack. The news is then filtered for relevant ESG controversies based on a comprehensive event taxonomy derived from Sustainability Accounting Standards Board (SASB) and the UN Global Compact (UNGC) fields and NLP-enriched features including event sentiment, relevance, and novelty.

Detections of controversies are communicated systematically to the ESG Research Team through an interactive web-based dashboard application and regular summary emails. For exceptionally serious controversies, special email alerts would be triggered to notify the ESG Research Team, which would then reach out to the portfolio managers to take actions in a timely manner. Through the data provider used, the team also maintain access to a database of over 20 years of historical news events which allows tracking portfolio companies' ESG performance over time. This tool is currently being tested internally and we plan a systematic roll-out across all strategies in 2022.

Algebris believes in the value to educate our staff on the importance of ESG factors in the investment process and business operations. The Head of ESG Research has completed courses in Responsible Investment Analysis and Advanced Responsible Investment Analysis offered by the UN PRI Academy, and members of the ESG and investment team are encouraged to pursue similar ESG training. All investment team members are an integral part to our ESG strategy development and are actively consulted and informed on developments pertaining to the Firm's ESG investment integration framework and broader sustainability policies. They have all received training in the services offered by our external ESG data providers and are encouraged to take any additional specific responsible investment training relevant to their field of work (e.g. the CFA ESG certification). All relevant staff is trained on the Firm's policy in relation to ESG and regularly receive refresher training when any updates to that policy are made.

3. Participation in RI Initiatives

Algebris has been a signatory to the United Nations Principles for Responsible Investment ("**UN PRI**") since 2019. The UNPRI Six Principles are fully integrated across our business and investment processes:

- *Principle 1*: We will incorporate ESG issues into investment analysis and decision-making. Algebris has developed an internal ESG research and analytical capacity, which works closely with the investment team to integrate ESG consideration in the investment process across our investment strategies.

- *Principle 2*: We will be active owners and incorporate ESG issues into our ownership policies and practices. Algebris takes into account long-term sustainability considerations of issuers when deciding how to exercise our voting rights. Our voting policy also includes a formal commitment to vote in favor of AGM resolutions asking for companies to submit a Climate Transition Action Plan.

- *Principle 3:* We will seek appropriate disclosure on ESG issues by the entities in which we invest. Algebris is a member of collective engagement initiatives that push for disclosures on ESG issues, and we actively participate in CDP's Non-Disclosure campaign. The investment teams conducts individual engagement with invested entities on ESG issues that may emerge from our analysis of their performance, and thematic engagement centered around Science Bast Targets (SBTs) forms the core of our strategy to achieve the Net Zero AUM commitment we set in 2022.

- *Principle 4:* We will promote acceptance and implementation of the Principles within the investment industry. As a key player in the financial sector, Algebris engages directly with regulators and supra-national authorities on ESG issues. Examples of this engagement are available on our website.

- *Principle 5:* We will work together to enhance our effectiveness in implementing the Principles. Algebris is a member of several collective engagement initiatives revolving around Responsible Investment and listed below. These initiatives allow us to leverage our influence on investee companies' sustainability practices by acting together with likeminded investors.

- *Principle 6:* We will report on our activities and progress towards implementing the Principles. Algebris submitted its first UN PRI reporting in 2021, and will publish its first TCFD Climate report in early 2022. In 2022, we also aim at including portfolio-level non-financial ESG metrics in the perdiodic factsheets that are sent to invetsors.

In 2020, we became supporters of the Task Force on Climate-related Financial Disclosures (**TCFD**) and joined the Carbon Disclosure Project (**CDP**) as investor signatory. Since joining, we have been actively participating in CDP's Non-disclosure Campaign – requesting investee companies to respond to climate change, forests and water security questionnaires developed and managed by CDP.

In 2020, we joined the **Say on Climate Initiative**, supported by the Children's Investment Fund Foundation, CDP and ShareAction. The initiative stems from a recognition that companies and investors are failing to address climate change, and that there is a growing need for companies to publish climate transition action plans. Only 2.5% of companies have committed to set a Science-Based Target and fewer than 100 companies globally address their shareholders on climate change issues each year, largely ad hoc. We believe that publishing climate transition action plans must become the norm for all listed companies, on an annual basis. As members of the initiative, we commit to enter into dialogue with investee companies and encourage them to submit a Climate Transition Action Plan at their AGM for a shareholder vote. Where companies will not do so voluntarily, we commit to vote for or file AGM resolutions requiring such votes. This commitment has been formally embedded into our firm-level voting policy.

In 2021 we also joined the **Net Zero Asset Mangers Initiative** (NZAM), which is a formal partner of the UNFCCC's Race to Zero Campaign. The Net Zero Asset Managers initiative is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. As part of this commitment, we set an initial target of 57% of total AUM (79% of AUM excluding discretionary mandates) to be managed in line with attaining net zero emissions by 2050 or sooner. This target will be reviewed at least every 5 years with a view to reach 100%.

For setting our NZAM target, Algebris is using the SBT Portfolio Coverage approach. In line with this approach, Algebris commits to drive adoption of Science-Based Targets (SBT) by all investee companies in our Net Zero-aligned portfolios. For investees to have enough time to implement their target and ultimately achieve an economy-wide transition to net zero by 2050, investees will need to have had their SBTs approved by 2040. hFor Algebris, this implies a target to reach 100% SBT coverage of the portfolios within our Net Zero-aligned AUM by 2040. In 2022, Algebris will explore the possibility to pursue validation of this target through the Science Based Targets initiative. While this is a separate process from NZAM, and it is not compulsory for NZAM signatory to pursue validation, we believe that it will further ensure the robustness of our target.

PRI Principles for Responsible Investment

CDP DISCLOSURE INSIGHT ACTION

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Net Zero Asset Managers initiative

4. ESG Investment Integration

4.1 Overview

Algebris' ESG investment integration strategy aims to ensure the Firm is aware of key risks and opportunities of investments by incorporating additional layers of scrutiny and due diligence in investment analysis and decision-making, as well as in risk monitoring. A key element to ESG integration is materiality, i.e. identifying those ESG factors most likely to affect corporate and investment performance. The assessment of materiality requires a top-down understanding of ESG issues relevant for each country or sector. This is achieved by means of internal research collating ESG information from various sources – news, ESG research providers, data and research from NOGs and public bodies. Algebris' ESG research team also regularly publishes an investor-dedicated ESG publication (*The Green Leaf*). This top-down assessment is supplemented by bottom-up research on the individual investees' ESG profile and performance, underpinned by external and internal ESG research as well as direct engagement of the investment team with the investees.

Our ESG investment integration framework relies on a combination of different approaches to Responsible Investment. These are applied differently across our strategies, taking into account the focus of each, as well as the geographic and sector composition of the respective investment universe. This tailored approach ensures a coherent and effective ESG integration across the Firm's different strategies, and allows identifying the ESG issues that are most material to each line of investments. Regarding the depth of ESG integration in the investment process, a key distinction is between the funds that are included in Algebris Net Zero AUM pledge, and funds that for the time being are not yet committed (Table 3).

Negative Screening / Exclusion – exclusion of certain names from the investable universe to ensure the Firm is not involved in financing activities or business practices that we deem unethical or harmful to environment or society. Where possible, our ESG exclusions include a financing overlay, which targets the financial actors playing a major role in financing or ownership of restricted activities. We apply 3 kinds of exclusions:

- *Normative exclusion (UNGC):* aiming to exclude firms in violation of UNGC principles
- *Ethics exclusions:* covering a number of controversial activities that varies across funds
- *Climate exclusions:* covering the large spectrum of the fossil fuel industry, from thermal coal mining and power generation to conventional and unconventional oil and gas production

Positive ESG screening / Best in Class - a process by which certain securities are included in the portfolio by means of their stronger ESG attributes, including but not limited to ESG scores. Algebris generally aims to maintain portfolios with above average ESG scores. For our financial strategies, we formally restrict the investable universe to exclude the 10-15% worst performers in the sectors' distribution of ESG scores.

ESG Engagement - seeking to direct the behavior of an investee company in which a fund is invested, in order to enhance their long-term sustainability through a focus on fostering good ESG practices and/or remedying bad ESG practices. This pillar is central to our Net Zero AUM commitment (section XX).

Table 3 – Overview of RI approaches at Firm level

	Article 6	Article 8 Non Net Zero	Article 8 Net Zero	Article 9 Net Zero
Exclusions – Norms (UNGC)		■	■	■
Exclusion – Climate (basic)		■	■	■
Exclusion – Ethics (basics)		■	■	■
Exclusion – Climate (extended)			■	■
Exclusion – Ethics (extended)				■
ESG Screening		**	■	■
ESG Best in Class			■	■
Portfolio CO_2 Footprint			■	■
Active Ownership		■	■	■

Note:** does not apply to Global Credit Opportunities

4.2 ESG Exclusion Policies

Algebris applies a broad range of ESG exclusion policies to all its UCITS funds. These policies are grounded on normative, ethical, or climate related considerations and applies across all Algebris funds where Algebris controls the investment policy of the entire fund in its capacity as sole investment manager (Table 4).

Table 4 – Overview of RI approaches at Firm level

	Article 8 Non Net Zero	Article 8 Net Zero	Article 9 Net Zero	Financing Overlay (all funds)
Norms (UNGC)	■	■	■	
Ethics – Controversial Weapons	■	■	■	■
Ethics – Tobacco	■	■	■	■
Ethics – Predatory Lending	■	■	■	■
Climate – Thermal Coal	■	■	■	■
Climate – Oil Sands	■	**	***	■
Climate – Arctic Oil	■	**	***	■
Climate – Oil and Gas		■	***	****
Ethics - Alcohol			■	■
Ethics – Military Contracting			■	■
Ethics – Small Arms			■	■
Ethics – Gambling			■	■

Note:** = stricter than for Article 8 non Net-Zero; *** = stricter than for Article 8 Net Zero; **** = only applies to Article 9

Algebris is a global investment manager with a historical focus on the financial sector and over 80% of the Firm's AUM invested in this sector. We consider the financial sector to be the 'gatekeeper' of the transition to a more sustainable economy, due to the key role it plays in allocating funds across sectors. Whenever possible under existing data limitations, our sectoral ESG exclusion policies add a 'financing overlay' to the more traditional exclusions based on companies' direct involvement in controversial activities. Trough this overlay, we exclude companies that play a major role in the financing of the economic activities we restrict – either through significant ownership stakes in directly involved companies, or through financing.

4.2.1 Norm-Based exclusions

The ten UN Global Compact Principles are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. They are intended to lay out a framework for assessing corporate sustainability in view of a company's value system and a principles-based approach to doing business. The UNGC principles hence serve as a compass to assess companies' behaviour against their fundamental responsibilities in the areas of human rights, labour, environment, and anti-corruption. By incorporating the Ten Principles of the UN Global Compact into business strategies, policies, and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success.

Algebris ESG research team carries out a UNGC screening underpinned by data from ESG data providers Vigeo Eiris (VE) and MSCI, as well as internal research. The aim of our UNGC screening is to minimize exposure to companies with especially poor practices in key UNGC-relevant areas and identify potential issues on which to engage with companies in the portfolio.

From an operational standpoint, the UNGC screening restricts investment in companies that are identified to be in involved in very serious violations of any of the UNGC principles (human rights, labour rights, non-discrimination, environment, corruption). We define a very serious violation as the case of a company being involved in persistent UNGC-related controversies, where the controversy is of critical severity and the company is non-reactive.

4.2.2 Ethics Exclusions

Algebris applies several sector exclusions on grounds of ethics considerations. Investment in companies directly involved in the manufacturing of controversial weapons, tobacco products and predatory lending activities is restricted across all Algebris liquid funds. Algebris Article 9 Funds are subject to a broader range of ethical ESG restrictions encompassing also alcohol, military contracting and arms, as well as gambling (Table 5). All these exclsuions are accompanied – where possible – by a financing overlay targeting major financers of restricted activities. More details are available in our ESG Exclusion Policies document.

Table 5 – Ethics Exclusion – Revenue Thresholds

	Article 8 Non Net Zero	**Article 8** Net Zero	**Article 9** Net Zero
Ethics – Controversial Weapons	0%	0%	0%
Ethics – Tobacco Products	0%	0%	0%
Ethics – Tobacco services	5%	5%	0%
Ethics – Predatory Lending	0%	0%	0%
Ethics - Alcohol			0%
Ethics – Military Contracting			0%
Ethics – Small Arms			0%
Ethics – Gambling			0%

4.2.3 Climate Exclusions

Algebris Investments is committed to actively fight climate change. Aware that our largest impact on climate occurs through choices we make in our investment process, in 2021 we joined the Net Zero Asset Managers Initiative (**NZAM**), committing to manage a progressively larger share of our AUM in line with net zero emissions by 2050 or sooner. To achieve this goal, we take a strict stance on investment in fossil fuels.

As set out in the 2018 IPCC 1.5 degrees scenarios and the 2021 IEA Net Zero scenario, achieving net zero by 2050 will require a rapid reduction in emissions from fossil fuel combustion and phase out of investment in fossil fuels. The pathway laid out in the IEA report requires that no new unabated coal plants, no new oil and gas fields, and no new coal mines or mine extensions be approved from 2021 on. In its guidance for the financial sector, the Science Based Target Initiative (**SBTi**) also recommends that financial institutions seeking to align with the Paris Agreement transparently address the role of fossil fuels in their investment portfolio. The SBTi recommended phaseout of thermal coal investments and more thorough disclosure on financial institutions' fossil fuel investments and related activities.

Algebris subscribe to these recommendations and applies strict limits to investment in fossil fuels (Table 6).

Table 6 – Climate Exclusion – Revenue Thresholds

	Article 8 Non Net Zero	**Article 8** Net Zero	**Article 9** Net Zero
Coal – Mining	5%	0%	0%
Coal – Power	10%	0%	0%
Arctic Oil	5%	0%	0%
Tar Sands	10%	0%	0%
Oil & Gas – Production		40%	0%
Oil & Gas – Power Generation			40%

Algebris' Net Zero aligned Article 8 funds[1] and Article 9 funds are prevented from investing in companies deriving any revenue from coal, and companies pursuing significant coal power or coal mining expansion plans (regardless of the share of revenues they derive from coal). All other strategies are also subject to strict limits.

Algebris also restricts investment in any company having a significant ownership in the entities excluded under this rule[2], and screens investment in banks and other financial institutions playing a significant role in global coal finance. In particular, Algebris will not invest in debt or equity issued by the top-5 global coal shareholders and bondholders, nor in debt or equity issued by Agricultural Bank of China, Bank of China, China Construction Bank, Industrial Bank, China CITIC Bank and ICBC – which accounted for 50% of lending to the 30 top coal mining and coal power companies between 2016 and 2020[3]. Complementary to this exclusion, we monitor fossil fuel policies of global banks and aim to select names exhibiting relatively stronger policies and lower fossil fuel funding for our financial portfolios.

Besides coal, we also apply strict revenues thresholds to investment in companies operating in the production of unconventional oil and gas. Algebris' Net Zero aligned Article 8 funds and Article 9 funds are prevented from investing in companies deriving any revenues from exploration/extraction of either Tar Sands or Arctic Oil. Algebris will also not invest in any company having a significant ownership in the companies excluded under this rule.

[1] Algebris Financial Credit Fund, Algebris Financial Credit Fund IG, Algebris Financial Equity Fund, Algebris Financial Income Fund, Algebris Long Only, Algebris Financial Bond Fund, Algebris Green Transition Fund. See our NZAM commitment disclosure for details.
[2] Significant ownership data are sourced from ESG data provider Sustainalytics. Significant ownership is typically defined as an ownership stake of 10% or above.
[3] Based on the data collected by the BankTrack and 5 other NGOs in the report "Banking on Climate Chaos – Fossil Fuel Report 2021"

While having a significant footprint, conventional oil and gas are likely to remain a bridge fuel in the transition towards full decarbonization, at least in the short term and more so considering the recent geopolitical developments. Recent discussions on the inclusion of gas in the EU Taxonomy of sustainable economic activity, following the late 2021 spike in energy prices, provide further evidence to this effect. At the same time, the IEA 2050 Net Zero report recommends that no new oil and gas levels fields be approved for development starting from 2021. For all Algebris' Net Zero aligned Article 8 we restrict investment in companies that derive more than 40% of revenues from the production of conventional oil and gas. Our Article 9 Green Transition Strategy is subject to stricter restrictions.

More details on these climate-related exclusions are available in our fossil fuel policy and in our Net Zero methodological documents – both available on our website.

4.2.4 Implementation

The Firm will at all times maintain an exclusion list (the "Exclusion List") of companies that meet the criteria listed in our ESG exclusion policies. This list is compiled by the Algebris ESG team, combining data from specialized ESG data providers, data published by NGOs, as well as internal research. The Exclusion List will be updated at least once a year, or more frequently to respond to relevant developments.

All ESG exclusion lists are coded into the Algebris Order Management System ("OMS"). The OMS has fully integrated pre- and post-trade controls which include the relevant investment guidelines for a particular fund, and restricted/black-lists and any additional risk limits that may be required. Any attempts at trading a security that is restricted on ESG grounds would trigger a pre-trade alert.

Breaches of ESG pre- and post-trade controls are communicated systematically to the ESG Committee as well as representatives from the Risk, Trading and Compliance departments via automated e-mail notification. Algebris has also set up a dedicated ESG incident log – under the more general risk log – where any breach or incident related to the application of the Firm's ESG policy and exclusion lists is timely recorded and then followed upon resolution.

Any breaches will be rectified as soon as reasonably practicable. If an Algebris Fund holds positions in a company that is subsequently added to any of the ESG exclusion lists, the fund will exit such positions as soon as reasonably practicable and, in any event, no later than 30 days after the most recent exclusion list update.

In limited and rare occasions, exemptions to the general rules outlined above might be considered. In principle, exemptions could concern:

- Affiliates of restricted companies, which may be allowed if their activity is not related to the excluded fossil fuels, and in any case subject to an enhanced due diligence by the ESG team.
- Green bonds or sustainability bonds emitted by restricted companies, which may be allowed subject to an enhanced due diligence by the ESG team.
- Companies that exceed the revenue thresholds only marginally, but that display credible transition plans and track record may be allowed, subject to an enhanced due diligence by the ESG team.

These exemptions are intended to remain exceptional, and they will be transparently made public. As of December 2021, only one such exemption had been authorized by the ESG team – pertaining a company exceeding the exclusion thresholds in our coal sector policy - and this case is discussed in detail in our fossil fuel policy.

More information and details on how our ESG exclusion policy applies to derivative instruments, baskets, and indices is available in the ESG exclusion policy document available on our website.

4.3 ESG Screening and Best-in-Class

On top of the negative screening performed through ESG exclusions, Algebris applies an ESG positive screening across all its Article 8 funds. This screening is applied differently across different strategies, to account for their different sector, instrument, and geographic focus.

4.3.1 Algebris Financial Strategies

The G-SIFIs segment of the global banking sector where our financial investment is concentrated tend to have high transparency standards on Task Force on Climate Related Financial Disclosure (TCFD): 96% of the G-SIFIs in which the Algebris Financial Credit Fund invests follow TCFD principles and recommendations (data 31.08.2020). The disclosure of and phase out from fossil financing will be a central theme in our engagement strategy for 2021 and beyond, in line with our commitment in the context of the Net Zero Asset Managers Initiative.

All our financial funds (representing ~85% of AUM) are subject to an **ESG Best-in-Class** screening of corporate issuers, which requires a minimum ESG performance for Algebris funds to invest. This assessment is based on data from third-party ESG data providers as well as data collected through a proprietary ESG questionnaire when third-party data is not available.

Our ESG best-in-class screening restricts investment in companies that are identified to be in the bottom 15% of the distribution of the sector's global ESG score, with a formal outright exclusion for the bottom 10% and a watchlist system for the companies falling in the 10-15% bracket. For our flagship Financial Credit and Financial Credit Investment Grade strategies the thresholds for investment restriction and watch-listing are stricter, raised to 15% and 20% respectively. Companies are also watch-listed also if they score in the bottom 15% on any of the E, S, or G sub-dimensions – with watchlisting resulting in engagement.

Complementary to this exclusionary angle, we also aim at achieving an aggregate ESG score for our financial portfolios above the average for the reference sector. The average ESG score for names in our financial portfolios is significantly above the average ESG score for names in the reference investment universe. Names in our financial portfolios have an ESG score that on average places them in the top 10-20% best performers in terms of ESG profile, compared to the reference sector[4].

For our financial strategies – which have all been included in the perimeter of Algebris Net Zero AUM - we also monitor a number of climate-related metrics, in connection with our commitment under the Net Zero Asset Managers Initiative.

Under our Net Zero AUM target, Algebris commits to drive adoption of Science-Based Targets (SBT) by the investee companies in our Net Zero-aligned portfolios. For investees to have enough time to implement their targets and ultimately achieve an economy-wide transition to net zero by 2050, they will need to have had their SBTs approved by 2040. For this reason, Algebris has set a target to reach 100% SBT coverage of the portfolios within our Net Zero AUM perimeter by 2040. We therefore closely monitor the evolution of our Net Zero AUM **SBT portfolio coverage**. More details are available in our NZAM commitment.

For all our financial strategies, we calculate the **carbon footprint at portfolios level**, measuring the CO_2e per million of euro invested, for both equity and fixed income instruments. These metrics will be reported in the monthly investor factsheet starting in 2022, as well as in Algebris TCFD-aligned Climate Report. For our financial strategies we also run a **temperature rating analysis at portfolio level** using CDP's data and methodology. This exercise measures the value chain global warming path of companies by translating their emissions targets into temperatures path, thus allowing investors to better understand and manage climate transition risks at the portfolio level.

Lastly, for our financial strategies portfolios we monitor exposure of investee banks to fossil fuels through their lending to the fossil fuel industry. Data on this important component of banks' environmental footprint is still partial and non-systematic – we rely on research run by the Rainforest Action Network (RAN) and other

[4] Using Vigeo Eiris data, as at January 2022

NGOs in a flagship annual report, which covers the 60 largest banks globally[5]. This data covers between 40% and 83% of the portfolios of our financial funds[6] net of cash.

While this This data is still too partial, in our view, to serve as the basis for an investment/diverstment rule, it is nonetheless informative as to the exposure of investee companies to climate risk through their lending to fossil fuel companies. We therefore use it to monitor the average growth rate of annual financing from banks in our financial portfolios *versus* banks not in our portfolios, to four fossil fuel industry segments:

- all fossil fuels, i.e. over 2,300 companies active across the fossil fuel life cycle;
- fossil fuel expansion, i.e. the 100 top companies expanding fossil fuels
- coal, i.e. the 30 top companies in coal mining and 30 top in coal power
- unconventional oil & gas, i.e. top players in tar sands, fracking and arctic oil

4.3.2 Algebris Italian Equity Strategies

The Algebris Italian Securities Strategy invests primarily in equity securities of Italian companies, focusing on the small and mid-capitalization segment of the market, and can also invest in credit. The Italian Securities Strategy is subject to all our firm-level exclusion policies covering UNGC, as well as direct involvement in controversial activities and the funding of such activities .

Due to the skew of the portfolio towards small caps, most of the names that are typically in the portfolio are not covered by the ESG scoring services that we receive from third party providers. The lack of third-party ESG data on small caps is a known problem common across the ESG rating industry - and Algebris has voiced concerns about this in a letter we have sent to EU and national authorities.

In light of this specificity, a two-pillars ESG screening is applied to our Algebris Italian Equity strategy:

- For companies that are covered by the third-party ESG data services used by Algebris: a screening based on the ESG scores and KPIs from S&P-Robeco and Vigeo Eiris, including an assessment of compliance with the 10 principles of the UN Global Compact and a screening of controverises based on data from the same providers as well as from MSCI.

- For companies not covered by the third-party ESG data services used by Algebris: an ESG due diligence is performed by the investment team, including through the use of a proprietary ESG questionnaire submitted to the investee or perspective investee companies. The questionnaire features a set of common questions and a set of sector-specific questions. Some of the common questions are intended as minimum requirements for companies to be deemed investable. The investment team also monitors closely the insurgence of any ESG and/or UNGC controversies on the names that are not covered by third-party data providers.

4.3.3 Algebris Global Credit Opportunities Strategies

The Algebris Global Credit Strategy invests across sovereign, bank and corporate debt globally, hedging macro risks and optimising diversification and liquidity. The strategy adopts a multi-strategy, flexible approach, including with the ability to take long and short positions. Like all Algebris strategies, it is subject to our firm-level exclusion policies covering both direct involvement in controversial activities and the funding of such activities, as well as to a UNGC screening.

The investment team monitors ESG metrics of the investee companies and seeks to achieve a good ESG performance for the portfolio on average. The Algebris AI/Big Data team is further developing an AI-driven controversy monitoring tool to monitor the increase of potential ESG-related controversies relating to investee companies.

[5] See e.g. the 2021 Banking on Climate Chaos RAN report

[6] The coverage is computed using portfolio weights, net of cash and as at 31.12.2021.

4.3.4 *Algebris Non-Performing Loans (NPL) Strategies*

The Algebris NPL Strategy aims to invest primarily in Non-Performing Loans (NPLs) in Italy, with a focus on first lien mortgage NPL portfolios secured by Real Estate assets. While all our NPL funds are classified as Article 6 under EU SFDR, our NPL Fund III vehicle does have a tailored ESG investment integration policy – catering for ESG issues that are most material to the illiquid market.

One of the most material ESG issues for the Algebris NPL Strategy is the potential social implications of investing in distressed debt, which could also carry reputational risk. To mitigate these risks, the investment team applies minimum social standards and safeguards to the Algebris NPL Strategy[7]:

- **Settlement process:** the team seeks for an extra-judicial arrangement with the debtor to renegotiate the terms and avoid a bankruptcy declaration. This approach has proven very effective: to date, extrajudicial strategies accounted for ~31% of the closed positions of Algebris NPL Partnership I and ~80% of closed positions in Algebris NPL Partnership II in terms of purchase price.
- **Loan type:** loans presenting the highest social risk are loans that: (i) have been given to individuals; (ii) are secured by residential assets towards which we pursue a judicial strategy; (iii) have GBV lower than €200k (a €200k mortgage is the typical "middle class" mortgage), and (iv) are secured by an asset which has not been sold in auction yet.
    - The Algebris NPL team's investment policy is to limit as much as possible exposure to loans of this nature. The loans with these characteristics in Fund I are 15 (~0.16% of total portfolio in terms of purchase price). The loans with these characteristics in Fund II are 68 (~0.46% of total portfolio in terms of purchase price).
    - The team focuses on the high-end residential market (primary locations, quality of collateral) and hotel or commercial properties, mainly originated by legal entities as borrowers (rather than individuals).
    - For the Algebris NPL Partnership I, 43% of the portfolio is invested in loans with a gross book value >5m and 87% of the portfolio in loans with a gross book value >€1m; 88% of the borrowers is represented by corporates.
    - For the Algebris NPL Partnership II, 68% of the portfolio is invested in loans with a gross book value >5m and 90% of the portfolio in loans with a gross book value >€1m; 94% of the borrowers is represented by corporates.

The NPL team is considering the opportunity to add an environmental angle to our NPL Strategy, broadening the scope to encompass assets with a clear green energy focus – such as solar plants and photovoltaic installations. A strengthened focus on adding value to the underlying real estate assets through intervention aimed at increasing their energy efficiency will also be considered.

4.3.5 *Algebris Green Transition Private Equity Strategy*

In 2021, Algebris set up a new Business Unit entirely focused on the energy and ecological transition, which comprises on experts with an industrial background and a proven track record in the energy sector. In 2022, Algebris is launching a private equity strategy that will pursue three investment pillars (Energy Transition, Circular Economy, Smart Cities and Agriculture) and that is calssifed as Article 9 according to the EU Sustainable Finance Disclosure Regulation (SFDR). This strategy will have a dedicated in-depth ESG integration framework, focused on selecting investment opportunities with a strong ESG profile and clear connection with the abovementioned sustainable investment themes, as well as on monitoring these characteristics throughout the life of the investment.

[7] All data reported in this section is as of 31/12/2020

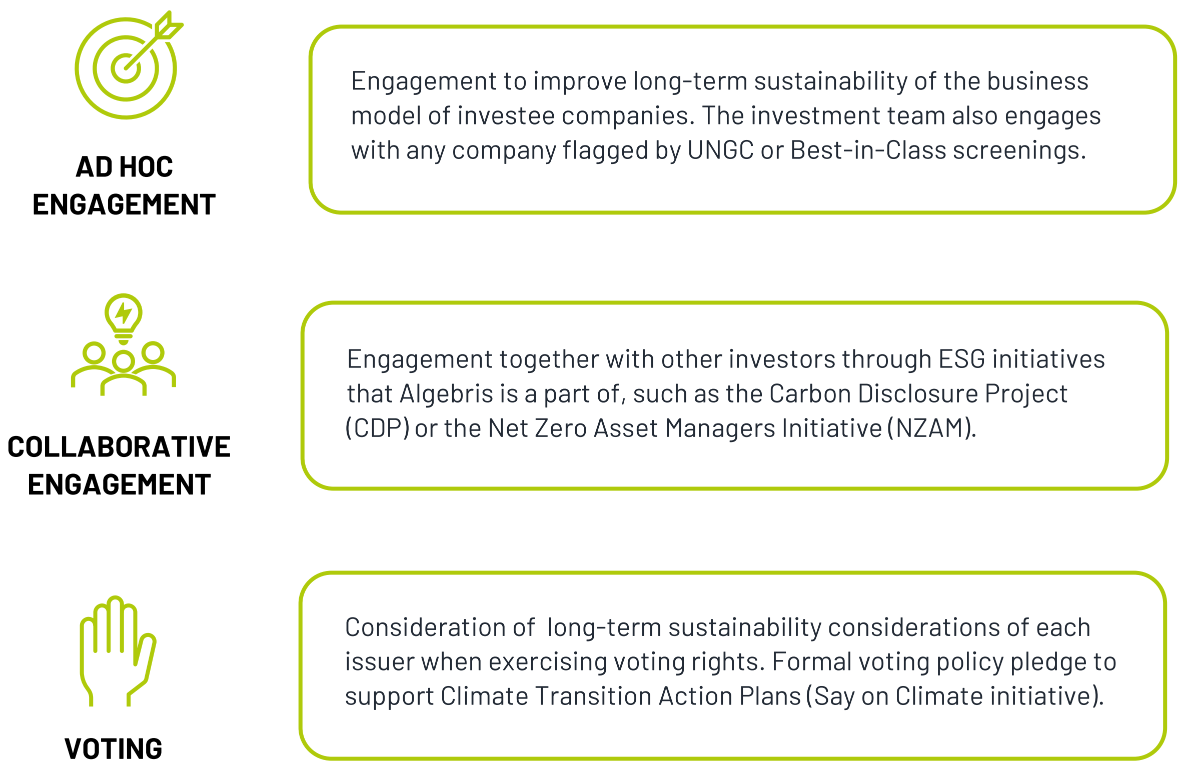
4.4 ESG Stewardship and Engagement

Algebris uses a combination of bottom-up fundamental research informed by top-down understanding of the macro context in order to evaluate investment opportunities. In many cases, Algebris seeks to build long-term relationships with the companies we invest in and is able to maintain a dialogue with senior management that is critical within the investment process. Algebris' investment selections undergo exhaustive due diligence, communication with company executives, and a highly disciplined approach to risk control.

The Firm's portfolio managers engage in Active Ownership, with a view to reducing the risk of particular positions falling outside of risk appetite/limits. We also aim to use our role as investors to achieve positive change, and hence place a high importance on actively engaging with investee companies on sustainability.

Our stewardship policy is grounded on 3 pillars: *ad hoc* engagement, collective engagement, and voting. We maintain our commitment to effective stewardship of investee companies throughout the lifecycle of the investment, through ongoing monitoring of ESG credentials and progress. This is primarily achieved via regular contact with the investee companies and on-going review of ESG metrics, shareholder communications and publicly available information.

Figure 1 - Algebris ESG Stewardship and Engagement



4.4.1 Ad hoc Engagement

The goal of our ad hoc ESG engagement is to positively influence the behaviour of investee companies to improve the long-term sustainability of their business models. On the investment side to this end, Algebris investment professionals hold ongoing dialogue with investee companies, which includes discussions of relevant ESG developments. The Algebris ESG Research team is often involved in those conversations.

ESG forms part of the regular discussion between Algebris investment professionals and investee companies, complementing the ongoing assessment of investees' fundamentals. Engagement with issuers on climate-related issues is key to our Net Zero commitment: starting in 2022 Algebris will focus engagement specifically on driving investees' adoption of Science Based Target by all investees in our Net Zero-aligned portfolios, so as to achieve our SBT portfolio coverage commitment.

Ad hoc engagement is also a central part of both our UNGC and ESG best-in-class screenings, as well as our monitoring of ESG controversies. If an investee company is flagged by our UNGC screening or our ESG Best-in-class screening, the ESG team and the investment team need to assess if the investment becomes unacceptable. To establish that, the team will engage with the company to establish whether reassurance can be obtained that the identified issue or breach will be rectified or improved upon.

We typically allow for an engagement window of up to 6 months – although in selected cases the window could be extended, subject to close monitoring of the expected process. If engagement appears to be unsuccessful, the end point will be divestment and exclusion until the identified issues are resolved.

Ad hoc engagement can finally take the form of engagement with regulators and other relevant bodies on a range of matters that are important to the firm, investors and to the sustainability cause. For example, we addressed a letter to EU authorities sharing our concerns that the unregulated nature of the ESG ratings industry might undermine EU efforts at fostering transparency on the sustainability credentials of investment products, creating a risk of green-washing, capital mis-allocation and product mis-selling. Our policy letter are available on our website.

4.4.2 Collective Engagement

Algebris is a member of the UN PRI and keen to deploy efforts to push for better environmental disclosures globally and recognises that engagement is most powerful when undertaken at firm level and collectively with third parties. Our collective engagement efforts are currently anchored around participation to multiple public transnational initiatives.

Net Zero Asset Managers Initiative (NZAM): NZAM is promoted by the Institutional Investors Group on Climate Changeand and it brings together 236 signatories with USD57.5 trillion in assets under management around the goal to align investments with net zero emissions by 2050 or sooner. Algebris disclosed its NZAM target in March 2022, committing to align 57% of our total AuM (79% excluding mandates) with the net zero objective by 2050 or sooner. As part of our NZAM membership, Algebris implemented a science-based fossil fuel investment policy setting very strict exclusions on thermal coal (mining, power generation and expansion) as well as unconventional oil and gas. Engagement with issuers on climate-related issues is key to our Net Zero commitment, and will revolve in particular around driving investees' adoption of a Science Based Target.

Say on Climate Initiative: An initiative supported by the Children's Investment Fund Foundation, CDP, and ShareAction aiming to push companies to publish climate transition action plans. Algebris joined in November 2020, and as members of the initiative we commit to encourage investee companies to submit a Climate Transition Action Plan at their AGM for a shareholder vote. This commitment translates into a requirement – embedded in our voting policy – for Algebris to promote and/or support AGM resolutions requiring such votes, whenever our investment comes with voting rights.

Carbon Disclosure Project (CDP): A global non-profit organisation working to make environmental disclosure mainstream, CDP is the largest solicitor of direct, reported, primary environmental information worldwide and it holds the largest collection of primary carbon, water and deforestation information. Algebris became an investor signatory in late 2020, and actively participates in CDP's annual Non-disclosure Campaign requesting that investee companies respond to climate change, forests and water security questionnaires developed and managed by CDP.

Task Force on Climate-realted Disclosures (TCFD): An industry-led task force promoting climate-related financial disclosures. Algebris joined in late 2020, and we are in the process of drafting our forst climate report which will provide the required TCFD disclosures covering 2022 and 2021. We anticipate that this will be published in Q1 2022.

5. ESG in Company Operations

5.1 Reducing our Footprint

As a financial services firm, the direct environmental impact from our operations is inherently limited, but sustainability and energy efficiency are guiding principles of our business operations – starting from the choice and management of our offices.

Algebris' headquarters in **London** and flagship office in **Milan** were chosen and are run in full consideration to energy and resource efficiency, water usage minimization, and waste management. In London, we have roof solar panels and water recycling from sinks and showers, and across both locations air conditioning is restricted to working-day hours. At present, renewable energy accounts for approximately ~35% our total energy consumption, but we are looking into the feasibility to increase the renewable or low impact energy share.

Food is delivered by a company that uses electric vehicles, and to which we return any shopping plastic bag. We also use a fruit delivery company that reuses the baskets and uses biodegradable wrapping for deliveries and all Algebris staff members are provided with stainless steel reusable water bottles, while we only buy reusable glass water bottles for all our meeting rooms. Across all our locations we maintain separate bins for food, plastic, paper, and glass and implement a strict recycling policy on all batteries and cartridges, while also using recycling paper or electronic receipts where possible. Our recycling rate at firm level is currently estimated to be ~85%.

In September 2021, we also introduced a pilot project to reduce emissions from the commuting of employees to our office in Milan. All Milan-based employees have been offered a bicycle provided by Algebris, to use for the daily commute. As of October 2021, 80% of the eligible employees had opted into the scheme and 19 had already received their bicycle. Of those who had received it, 58% stated that the Algebris bicycle had come to substitute an alternative mean of transportation they were previously using to commute (train, public transport, car, or other means of transportation).

We estimate this program to have already contributed to reduce emissions from commuting of our employees in Milan by 5% on an annual basis. When fully phased in, we expect the program to produce an overall reduction in emissions from commuting by 17%, and we are considering similar schemes for our other offices globally. In 2022, we also plan to collect more systematic data on emissions from commuting of our workforce, fine tuning our Firm-level carbon footprint.

5.2 Offsetting our emissions

Starting in 2019, Algebris' ESG Research Team has been performing a carbon footprint analysis of the Firm's activities – calculating our CO_2 emission since inception based on energy consumption, buildings cooling and heating, flights and travel, paper usage and waste disposal. These estimated CO2 emissions are then converted into a number of trees-equivalent – i.e. a number of trees to be planted in order to absorb the CO2 we emitted since our business started operating.

Forestation is today perhaps the most effective way to rapidly address land degradation and at the same time create new carbon sinks. This has been recognised for example in the July 2021 G20 communiqué, in which global leaders expressed their aspiration to collectively plant 1 trillion trees by 2030, with the involvement of the private sector and civil society[8]. Trees are natural carbon sinks, and a conservative estimate suggests that on average, a tree can absorb around 30 kg of CO2 per year over a 10-year horizon[9].

---

[8] See full text at: https://www.g20.org/wp-content/uploads/2021/10/G20-ROME-LEADERS-DECLARATION.pdf

[9] The conversion was based on estimates of the potential CO_2 absorption during the life cycle of different types of trees which we retrieved from the website of Treedom – a company specialised in offering tree-planting services with a

Offsetting Algebris CO_2 emissions since inception requires – in our estimates – the planting of approximately 23,000 trees. Based on these numbers, we set up an in-house project of forestation ('AlgeTREES'). The tree-planting is carried out by our partner Hakuna Matata[10] - a UK charity founded by Algebris' CEO, to which Algebris has a formal standing commitment to donate 1% of the Firm's annual earnings and to match all third-party donations. The AlgeTREES project has been devised with the objective to not only offset the environmental impact of our business operations, but also generate significant economic and social value for the local communities involved – in line with the principles of the UN Sustainable Development Goals (UN SDGs).

As of December 2021, approximately 82,000 trees had been already planted under the AlgeTREES project, and Algebris has committed to plan 1 million trees over the next decade. To ensure our objective of carbon offsetting is achieved, we closely monitor the trees' survival and annually review the estimates of both our carbon footprint and the planted trees' absorption capacity.

Figure 2 – SDG contribution of Algebris' AlgeTREES Project

The planting and caring of trees in the AlgeTREES project creates economic opportunities for local communities, with the possibility to sell the fruits or the extraction of resins.

Through the planting of fruit trees (avocado, orange, cedar, papaya, mango), the project contributes to create a cycle of sustainable local agriculture and enhances food security for the community.

Farmers receive training to tend to the different species of trees planted in the context of the project, in cooperation with the Mamre Agricultural College that Hakuna Matata supports.

AlgeTREES naturally contributes to fight climate change, through an operation of forestation that over the trees' life cycle should more than compensate for our environmental impact since inception. By planting trees and caring for them in a sustainable way, the project contributes to reduce the risks of desertification and biodiversity loss in an area at risk of experiencing them

positive environmental footprint. We averaged the estimates absorption capacity for the types of trees that we planted in our project – which range between 10 and 50 kg per year.

[10] More information about Hakuna Matata is available at: https://www.hakunamatata-charity.org/

6. Corporate Social Responsibility

At Algebris, we strongly believe in a culture of giving back to society, and this commitment is evidenced in the support that the firm provides to many social and education initiatives, well-aligned with the UN Sustainable Development Goals (UN SDGs).

CHARITABLE GIVING

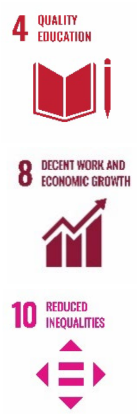
Algebris has a formal commitment to donate **1% of the Firm's annual earnings** and match all third party donations to our partner charity Hakuna Matata, a registered UK charity primarily focused on helping orphaned children in Tanzania through education, employment and healthcare programmes It is also our partner for Algebris' carbon offsetting project.

In March 2022, Algebris partnered with CARITAS, ASCS (Agenzia Scalabriniana per la Cooperazione allo Sviluppo) and BES GROUP to assist the civilian population affected by the war in Ukraine by offering board and lodging to up to 100 Ukrainian refugees to Italy for the whole of 2022 in the Antico Borgo La Muratella hotel located in the province of Bergamo.

SUPPORTING OUR COMMUNITES

In 2020, during the early stages of the Covid-19 pandemic, Algebris donated EUR 500,000 to two hospitals in Milan (Luigi Sacco and Policlinico) to help with purchase of technical equipment and increase the capacity to treat patients. The firm also donated 5,000 FFP2 masks to the two hospitals and to the municipalities of Milan and Bergamo – at a time when Italy was experiencing a severe shortage of PPEs.

EMPOWERING TALENT



We believe that quality education is the most effective way to overcome economic barriers. In 2018 and 2019 Algebris donated the firm's used IT equipment (monitors and PCs) to Camara Education, an international not-for-profit whose mission is to use technology to improve education in low-income communities.

Since 2017, Algebris has committed to a Scholarship Programme with Bocconi University in Milan, to support 60 students over 10 years. The Program awards 2 scholarships annually for students in Masters' degrees and 4 partial fee exemptions to students in the Bachelors' programme. In 2019, Bocconi and Algebris launched the Algebris Chair in Long-Term Investment and Absolute Return – a five-year education programme aiming at creating a future generation of fund managers focused on long-term investment and conscious of wider societal impact.