ALGEBRIS INVESTMENTS
ESG Exclusion Policy

2025

1. Purpose and Scope

This document outlines how Algebris Investments implements ESG-related exclusions in its investment policy.

Algebris Investments (the "Firm" or "Algebris") has a commitment to responsible investing. An important part of this commitment is to ensure our Funds do not contribute to financing activities and/or business practices that we deem unethical or detrimental to environment or society at large. This document outlines investment exclusions policies grounded on normative, ethical, or climate related considerations. It applies across all Algebris funds where Algebris controls the investment policy of the entire fund in its capacity as sole investment manager.

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. Through 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. Table 1 offers a summary overview of the ESG exclusions we apply across our funds at Firm level. More details are available in the next sections.

Table 1 – Overview of ESG Exclusions at Firm level

	Article 8 Non Net Zero	**Article 8** Net Zero	**Article 9** Net Zero GTF	**Article 9** Net Zero UCITS	**Article 9** Net Zero Climatech	**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: * = only applies to GTF. Article 8 Non-Net Zero Funds include Algebris Global Credit Opportunities and Algebris Core Italy Fund; Article 8 Net Zero Funds include all Algebris financial funds (Financial Credit; Financial Credit IG; Financial Income; Financial Equity; Financial Bond); Article 9 Net Zero Funds include Algebris Green Transition Fund (GTF),Algebris Sustainable World Fund (SWF) and Algebris Strategic Credit Fund (SCF). Note 2: for brevity and ease of presentation, Table 1 only includes exclusions that apply to all our Article 9 funds. The Algebris Climatech venture capital fund is subject to a number of additional exclusions that are not reported in this table but can be found in the fund's documents.

2. Norm-based Exclusions – UNGC and OECD

The ten UN Global Compact Principles ("UNGC") 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. Similarly, the Organisation for Economic Cooperation and Development ("OECD") Guidelines for Multinational Enterprises on Responsible Business Conduct are recommendations from governments to multinational enterprises on how to do business sustainably and responsibly.

In line with the minimum exclusions required for EU Paris Aligned Benchmarks and Climate Transition Benchmarks, Algebris exclude companies that are found to be in violation of the UNGC principles or the OECD Guidelines for Multinational Enterprises. Algebris research team carries out a UNGC and OECD screening underpinned by data from third party ESG data providers, as well as internal research. The aim of our UNGC and OECD screening is to minimize exposure to companies with poor practices in key UNGC/OECD-relevant areas and identify potential issues on which to engage with companies in the portfolio. Investment in companies that are identified to be in breach any of UNGC principles is prohibited across all Algebris funds, and our Article 9 funds are also prevented from investing in companies violating OECD guidelines. We define a violation as the case of a company being involved in persistent UNGC-related or OECD-related controversies, where the controversy is of critical severity and the company is non-reactive.

3. Ethics Exclusions

Algebris applies several sector exclusions on grounds of ethical considerations. In line with the minimum exclusions applied to EU Paris Aligned Benchmarks and Climate Transition Benchmarks, investment in companies directly involved in controversial weapons and/or cultivation and production of tobacco is not allowed across all Algebris funds. Funds that are classified as Article 9 under the EU Sustainable Finance Disclosure Regulation (SFDR) are also prevented from investing in companies offering tobacco-related services, and funds that are classified as Article 8 cannot invest in companies deriving more than 5% of revenues from these services.

In view of Algebris' historical focus on financials, investment in companies deriving any revenues from predatory lending activities is also restricted across all Algebris liquid funds. Article 9 Funds are subject to a broader range of ethical investment restrictions encompassing alcohol, military contracting and arms, as well as gambling (Table 2). All these exclusions are accompanied – where possible – by a financing overlay targeting significant ownership of companies involved in the restricted activities.

Table 2 – Ethics Exclusions

	PAB/CTB Requirement	**Article 8** Non Net Zero	**Article 8** Net Zero	**Article 9** Net Zero GTF	**Article 9** Net Zero UCITS	**Article 9** Net Zero CLimatech
Ethics – Controversial Weapons	0%	0%	0%	0%	0%	0%
Ethics – Nuclear Weapons	n.a.	See below**	0%	0%	0%	0%
Ethics – Tobacco – Cultivation & Production	0%	0%	0%	0%	0%	0%
Ethics – Tobacco services	n.a.	5%	5%	0%	5%	0%
Ethics – Predatory Lending	n.a.	0%	0%	0%	0%	0%
Ethics - Alcohol	n.a.			0%	5%	Prohibited*
Ethics – Military Contracting	n.a.			0%	5%	0%
Ethics – Small Arms	n.a.			0%	5%	Prohibited*
Ethics – Gambling	n.a.			0%	5%	Prohibited*

Note: Article 8 Non-Net Zero Funds include Algebris Global Credit Opportunities and Algebris Core Italy Fund; Article 8 Net Zero Funds include all Algebris financial funds (Financial Credit; Financial Credit IG; Financial Income; Financial Equity; Financial Bond); Article 9 Net Zero Funds include Algebris Green Transition Fund (GTF), Algebris Sustainable World Fund (SWF) and Algebris Strategic Credit Fund (SCF). Note 2: for brevity and ease of presentation, Table 1 only includes exclusions that apply to all our Article 9 funds. The Algebris Climatech venture capital fund is subject to a number of additional exclusions that are not reported in this table but can be found in the fund's documents. * The Algebris Climatech venture capital fund is prohibited from investing in companies which substantially focus on these activities. ** The Algebris Core Italy Fund and Global Credit Opportunities Fund are allowed to invest if the company is domiciled, incorporated, headquartered, or maintains significant operations or presence in Europe; provided, however that such investment may not exceed 10% of the total Net Asset Value of the Fund. See Section 3.1 for details.

3.1. Controversial Weapons

Certain weapons are internationally recognised as controversial and prohibited by international conventions and treaties. While the scope of the definition may change over time, at this date Algebris considers the following types of weapons to be controversial:

- *Anti-Personnel Landmines (APLM):* APLM can indiscriminately kill or injure civilians, including children, peacekeepers, and aid workers. The use, stockpiling, production, and transfer of anti-personnel landmines is prohibited under the Ottawa Treaty (1997).
- *Cluster Munitions:* munitions designed to disperse or release explosive submunitions[1]. They pose a serious and indiscriminate threat to the civilian populations during and long after an attack. The use, stockpiling, production, and transfer is prohibited under the Convention on Cluster Munitions (2008).
- *Chemical and Biological Weapons:* complex systems that disseminate disease-causing organisms or toxins to harm or kill humans, animals, or plants[2]. The use, stockpiling, production, and transfer of these weapons is prohibited under the Biological Weapons Convention (1975) and the Chemical Weapons Convention (1997).
- *Non-Detectable fragments, incendiary, blinding laser weapons*: covered by Protocols I, III, and IV of the UN Convention on Certain Conventional Weapons (1980) which seeks to prohibit or restrict the use of weapons considered excessively injurious or with effects that are indiscriminate.

Nuclear Weapons: While nuclear weapons are not included in the list of weapons that the European Union defines as controversial (see EC 2025) these weapons have the potential to kill millions and jeopardize the natural environment and lives of future generations through long-term catastrophic effects. The UN has long sought to eliminate them[3], and several multilateral treaties have been established with the aim of preventing nuclear proliferation and testing, while promoting progress in nuclear disarmament, including the Treaty on the Non-Proliferation of Nuclear Weapons (1968).

3.1.1 Companies directly involved in manufacturing of controversial weapons

All Algebris funds are prevented from investing in companies deriving any revenue from – the manufacturing of controversial weapons (as defined above). This includes both companies involved in production of the core weapon system and companies providing components/services for the core weapon system even if they are not tailor-made or essential for the lethal use of the weapons. Algebris funds are also prevented from investing in any company having a significant ownership in the entities excluded under this rule[4].

Algebris complies with Bank of Italy's Provision dated 23 July 2024, comprising the "Joint Instructions from Bank of Italy , COVIP, IVASS and the Ministry of Economics and Finance (MEF) for the exercise of enhanced controls over the operations of authorised intermediaries to counter the financing of companies producing anti-personnel mines, cluster munitions and submunition"

---

[1] As defined in the text of the Convention on Cluster Munitions: https://www.clusterconvention.org/

[2] See more information at: https://www.unog.ch/80256EE600585943/(httpPages)/29B727532FECBE96C12571860035A6DB?OpenDocument

[3] See the UN Office for Disarmament Affairs work at: https://www.un.org/disarmament/wmd/nuclear/

[4] Significant ownership data are sourced from data provider Sustainalytics. Significant ownership is typically defined as an ownership stake of 10% or above.

3.1.2 Companies directly involved in manufacturing of nuclear weapons

Algebris funds are generally prevented from investing in companies involved in nuclear weapons.

Only two Algebris funds (the "Core Italy" Fund and the "Global Credit Opportunities" Fund) are allowed to invest in companies involved in the production of nuclear weapons, limited to companies domiciled, incorporated, headquartered, or maintaining significant operations/presence in Europe, and limited to up to 10% of the Funds' Net Asset Value (NAV).

This provision has been introduced following a recent European Commission **Notice** clarifying the application of the EU sustainable finance framework to the defense sector, with the aim to align the two abovementioned funds with the European Commission's objective to support defense procurement and foster the European Defense and Technological Industrial Base more broadly.

This provision is without prejudice to the application of Law 220 of 9 December 2021, which will continue to be implemented through the complete exclusion of companies involved in the production of anti-personnel mines, cluster munitions, chemical weapons, and biological weapons.

3.1.2 Financers of Controversial Weapons

The funding chain of controversial weapons is untransparent, and the underlying data is still not collected by third-party ESG data providers. The data gathered by NGOs active in the field (eg. PAX, ICAN)[5] suffers from limited coverage and intermittent frequency in updates. Yet, we consider this data to add value to the integration of sustainability considerations in our investment process and use it as an input to our framework.

Investors in Nuclear Weapons: Data published in 2024 by ICAN[6] shows that shareholding and loans constitute 92% of the outstanding financing to the top-24 nuclear weapons producers .

Algebris will not invest in debt or equity issued by the top-5 nuclear weapons shareholders and lenders – unless they have reduced their positions/lending over time.

As of end 2023, the top-5 shareholders were[7]:

1. Vanguard (USD 72bn 3-years average growth rate: +3.1%)
2. State Street (USD 55bn, 3-years average growth rate: -0.6%)
3. Capital Group (USD 62bn 3-years average growth rate: +3.3%)
4. BlackRock (USD 53bn, 3-years average growth rate: +1.9%)
5. Wellington Management (USD 19bn, 3-years average growth rate:+ 5.4%)

As of end 2023, the top-5 lenders were[8]:

1. Citigroup (USD 20bn, 3-years average growth rate: -10%))
2. Bank of America (USD 17, 3-years average growth rate: -14%))
3. JPMorgan Chase (USD 15bn, 3-years average growth rate: -2%))
4. Wells Fargo (USD 11bn, 3-years average growth rate: -13%))
5. BNP Paribas (USD 9bn, 3-years average growth rate: -0.04%))

[5] See the 2023 report "Untenable Investment (https://www.dontbankonthebomb.com/untenable-investments/) by ICAN and PAX, and the 2018 report "Worldwide investments in cluster munitions – a shared responsibility" by PAX.

[6] See the 2023 report https://www.dontbankonthebomb.com/untenable-investments/

[7] See the 2023 report https://www.dontbankonthebomb.com/untenable-investments/

[8] See the 2023 report https://www.dontbankonthebomb.com/untenable-investments/

Based on the data reported above, 4 of the top-5 shareholders qualified for exclusion under the rule described above – namely Vanguard, Capital Group, BlackRock and Wellington Management. None of the top-5 lenders qualified for exclusion under the rule described above. Data will be updated annually or depending on the frequency with which the underlying source report will be published.

Investors in Cluster Munitions: Algebris will not invest in debt or equity issued by the top-5 global investors in cluster munitions. As of 2019, these were: China Construction Bank (US$ 950 mn, 10.7% of total), China Merchants Group (US$ 940 mn, 10.6% of total), NongHyup Financial (US$ 527 mn, 6% of total), CSC Financial (US$ 475 mn, 5.4% of total) and National Pension Service, South Korea (US$ 427 mn, 4.8% of total)[9]. The List will be updated when new data is released – possibly with the addition of a dynamic policy focused on phasing out, aligned with the one we apply to investors in nuclear weapons.

3.2. Predatory Lending

Predatory Lending broadly refers to any type of unscrupulous lending practice where a lender takes advantage of a borrower[10]. It usually involves borrowers being charged high-cost loans over a short-term horizon, with little or no credit checks, often with irresponsible collection practices. The lack of assessment of ability to repay can lead to the borrower being trapped in a cycle of loan renewals and debt accumulation[11]. Low-income, elderly, or otherwise vulnerable populations tend to be the target of this activity. During the Covid-19 pandemic, reports emerged of lenders targeting borrowers in financial difficulties, by circumventing advertising bans and other restrictions[12].

Common Predatory Lending practices include:

- *Payday Loans:* typically for small amounts and very short maturity, due in full by the borrower's next pay-check and charging Annual Percentage Rates (APR) well into three-digits territory. While payday loans are marketed as a way to cover emergency expenses, research shows that borrowers mostly use the loans to pay for recurring expenses[13] and that most payday loans are rolled over repeatedly[14].
- *High-interest Instalment Loans:* partly as a response to regulatory tightening on single payday loans, lenders have been diversifying into instalment loans[15] – with repayment stretching over a few months. By allowing borrowers to take on larger amounts of debt, however, these structures risk becoming a way for lenders to circumvent the regulatory caps on high interest rates existing for payday loans[16].
- *Rent to Own schemes:* contracts under which property such as furniture, consumer electronics, motor vehicles etc. are rented by the customer in exchange for weekly or monthly payment with an option to purchase at some point in the agreement. A typical contract may be for 12, 18 or 24 months and it can

[9] This list is based on data compiled by NGO PAX in the context of the "Worldwide investment in cluster munitions report". The data cover all investments found in the 7 producers of cluster munitions listed in the report.

[10] See https://www.law.cornell.edu/wex/predatory_lending

[11] See https://www.consumerfinance.gov/about-us/newsroom/cfpb-finds-four-out-of-five-payday-loans-are-rolled-over-or-renewed/

[12] See for example https://www.wsj.com/articles/how-payday-lenders-target-consumers-hurt-by-coronavirus-11591176601

[13] See https://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2012/pewpaydaylendingreportpdf.pdf

[14] See: https://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf

[15] For a discussion, see: https://www.pewtrusts.org/fr/research-and-analysis/issue-briefs/2016/08/from-payday-to-small-installment-loans

[16] See e.g. https://www.bloomberg.com/news/articles/2013-05-29/payday-lenders-evading-rules-pivot-to-installmant-loans?sref=ZROBPrgd or https://www.bloomberg.com/news/articles/2019-10-29/america-s-middle-class-is-getting-hooked-on-debt-with-100-rates?srnd=premium&sref=ZROBPrgd

cost double or triple what the borrower would pay for the item with cash, on layaway, or on an instalment plan[17]. Moreover, the industry is renowned for abusive payment collection practices[18].

As a global investment manager with a historical focus on the financial sector, Algebris is especially careful not to invest in financial companies associated with these practices. Algebris will not invest in debt or equity issued by companies that derive any revenues (0%) from predatory lending activities (as defined above). Algebris will also not invest in any company having a significant ownership in entities excluded under this rule.

3.3. Tobacco

Algebris supports the World Health Organisation (WHO) Framework Convention on Tobacco Control. Tobacco has long been demonstrated to be unhealthy: more than 7 million people a year die as a result of direct use globally, and around 1.2 million deaths are the result of non-smokers being exposed to second-hand smoke – testifying that there is no safe level of exposure[19].

Tobacco is also a leading cause of impoverishment: as over 80% of the 1.3 billion tobacco users worldwide live in low- and middle-income countries, consumption can contribute to poverty by diverting household spending from basic needs such as food and shelter. Moreover, the sector has in the past demonstrated questionable work practices, and in some countries children from poor households may be employed in tobacco farming to boost family income.

Algebris will not invest in debt or equity issued by companies that derive any revenues (0%) from the cultivation and production of tobacco, or the manufacturing of tobacco products, and/or companies that derive 5% or more of their revenues from supply of tobacco-related products or services. For our Article 9 funds this threshold is reduced to 0%. Algebris will not invest in companies having a significant ownership in the entities excluded under this rule[20].

3.4. Other Ethics Exclusions

For strategies with an enhanced sustainability profile (classified as Article 9 under EU SFDR[21]) , Algebris applies an additional set of ethical ESG restrictions – as highlighted in Table 2.

3.4.1 Alcohol

- Algebris Green Transition Fund (GTF) will not invest in companies that: (1) derive any (0%) revenues from production of alcoholic beverages and related products or services, and /or (2) have a significant ownership in companies under (1).
- Algebris Climatech will not invest in companies which substantially focus on: (i) production of and trade in distilled alcoholic beverages industry and related products.

[17] See https://www.consumer.ftc.gov/articles/0524-rent-own-costly-convenience
[18] See https://www.nclc.org/images/pdf/criminal-justice/report-rent-to-own-racket.pdf
[19] See https://www.who.int/news-room/fact-sheets/detail/tobacco
[20] Significant ownership data are sourced from data provider Sustainalytics. Significant ownership is typically defined as an ownership stake of 10% or above.
[21] This currently comprises only the Algebris Green Transition Private Equity strategy

- Algebris Sustainable World Fund (SWF) and Algebris Strategic Credit Fund (SCF) will not invest in companies that: (1) derive at least 5% of revenues from production of alcoholic beverages and related products or services, and /or (2) have a significant ownership in companies under (1).

3.4.2 Gambling

- Algebris Green Transition Fund (GTF) will not invest in companies that: (1) derive any (0%) revenues from gambling operations, gambling specialized equipment and supporting products or services, and /or (2) have a significant ownership in companies under (1).
- Algebris Climatech will not invest in companies which substantially focus on: (i) casinos and equivalent enterprises, as well as gambling and the related products, activities and services (e.g. slot machines).
- Algebris Sustainable World Fund (SWF) and Algebris Strategic Credit Fund (SCF) will not invest in companies that: (1) derive at least 5% of revenues from gambling operations, gambling specialized equipment and supporting products or services, and /or (2) have a significant ownership in companies under (1).

3.4.3 Military Contracting

- Algebris Green Transition Fund (GTF) will not invest in companies that: (1) derive any (0%) revenues from military contracting, and /or (2) have a significant ownership in companies under (1).
- Algebris Climatech will not invest in companies which derives revenues from: (i) the production of, or trade in, of any kind of military systems, including the production, trade, stockpiling, sale, transfer, import, export or any other activity or service associated (including technological research) of weapons systems intended for entities other than governments or enterprises authorized by the recipient governments
- Algebris Sustainable World Fund (SWF) and Algebris Strategic Credit Fund (SCF) will not invest in companies that: (1) derive at least 5% of revenues from military contracting, and /or (2) have a significant ownership in companies under (1).

3.4.4 Small Arms

- Algebris Green Transition Fund (GTF) will not invest in companies that: (1) derive any (0%) revenues from production of small arms and/or from retail and distribution of small arms, and/or (3) have a significant ownership in companies under (1) or (2).
- Algebris Climatech will not invest in companies which substantially focus on: (i) the financing of, the production of or the trade in (non-controversial) weapons and ammunition of any kind, it being understood that this restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies.
- Algebris Sustainable World Fund (SWF) and Algebris Strategic Credit Fund (SCF) will not invest in companies that: (1) derive at least 5% of revenues from production of small arms and/or (2) at least 10% revenues from retail and distribution of small arms, and/or (3) have a significant ownership in companies under (1) or (2).

On account of its narrower focus on the green and energy transition, the Algebris Green Transition Fund and Algebris Climatech Fund are also subject to additional restrictions that do not apply to Algebris Sustainable World Fund and Algebris Strategic Credit Fund (SCF). These can be found in the relevant fund's ESG Policy.

4. Climate related 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.

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.

Our Climate Investment framework is anchored to the EU framework for Paris Aligned Benchmarks (PAB) and we have introduced a fossil fuel science-based investment policy, which establishes strict limits to exposure of companies involved in this sector.

Algebris' Net Zero Article 8 funds and Article 9 funds are prevented from investing in companies deriving any revenue from coal exploration, mining, extraction, distribution and/or coal-powered energy generation. These funds are also prevented from investing in companies pursuing significant coal power or coal mining expansion plans (regardless of the share of revenues they derive from coal). Algebris also restricts investment in companies having significant ownership in the entities excluded under this rule[22], and screens investment in banks and other financial institutions that play a significant role in global coal finance.

Algebris funds are also subject to strict limits on investment in unconventional oil and gas. Algebris Net Zero aligned funds are prevented from investing in companies deriving any revenues from exploration, extraction, distribution or refining of either Tar Sands or Arctic Oil. Under our financial overlay, investment in any company having significant ownership in the companies excluded under this rule is also not allowed.

The IEA 2050 Net Zero report recommended that no new oil and gas levels fields be approved for development starting from 2021, and the war in Ukraine made it clear that excessive and undifferentiated reliance on fossil fuels in countries' energy mix can become a source of systemic risk. Whilst conventional oil and gas are likely to remain a bridge fuel in the transition towards full decarbonization (as evidenced by their inclusion in the EU Taxonomy of sustainable economic activity), we are convinced that investment in this area carries a risk of becoming stranded in the medium term and needs to be limited.

For all Algebris' Net Zero-aligned Article 9 funds, investment is not allowed in companies that derive any (0%) revenues from the production (exploration and/or extraction) of conventional oil fuels and gaseous fuels. Investment is also not allowed in companies that derive more than 5% of revenues from the refining or distribution of oil fuels nor in companies that derive more than 10% of revenues from the refining or distribution of gaseous fuels. Article 9 funds also cannot invest in companies that derive more than 40% of revenues from conventional oil and gas power generation – which we deem to fall in scope of the EU Paris Aligned Benchmarks definition of "electricity generation with a GHG intensity of more than 100 g CO2 e/kWh."

Table 3 – Climate Exclusions

[22] Significant ownership data are sourced from ESG data provider Sustainalytics. Significant ownership is typically defined as an ownership stake of 10% or above.

	PAB Requirements	Article 8 Non Net Zero	Article 8 Net Zero	Article 9 Net Zero GTF	Article 9 Net Zero Climatech	Article 9 Net Zero UCITS
Coal – Exploration, Mining, Distribution, Refining	1%	5%	0%	0%	0%	0%
Coal – Power Generation	50%[23]	10%	0%	0%	0%	0%
Arctic Oil - exploration, extraction, distribution, refining	10%	5%	0%	0%	0%	0%
Tar Sands - exploration, extraction, distribution, refining	10%[24]	10%	0%	0%	0%	0%
Oil and Gas fuels – exploration or extraction (production)	10%		40%	0%	0%	0%
Oil fuels – refining, storage, distribution	10%			5%	0%	5%
Gas fuels – refining, storage, distribution	50%			10%	50%	10%
Oil & Gas – Power Generation	50%[25]			40%	50%	40%

Note: Article 8 Non Net Zero Funds include Algebris Global Credit Opportunities and Algebris Core Italy Fund; Article 8 Net Zero Funds include all Algebris financial funds (Financial Credit; Financial Credit IG; Financial Income; Financial Equity; Financial Bond); Article 9 Net Zero Funds include Algebris Green Transition Fund and Algebris Sustainable World Fund. Note: Article 8 Non-Net Zero Funds include Algebris Global Credit Opportunities and Algebris Core Italy Fund; Article 8 Net Zero Funds include all Algebris financial funds (Financial Credit; Financial Credit IG; Financial Income; Financial Equity; Financial Bond); Article 9 Net Zero Funds include Algebris Green Transition Fund (GTF), Algebris Sustainable World Fund (SWF) and Algebris Strategic Credit Fund (SCF).

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 the financial portfolios. Our Article 9 Funds that can invest in financials are subject to strict best in class selection when considering investment in this sector. To be eligible as an investment in these funds, financial institutions must have at least 20% of their revenue aligned with one or more of the SDGs, and should have credible coal policy, arctic oil policy and oil sands policy. Algebris has built a proprietary screening process that combines metrics from different sources, to evaluate a financial institution's fossil fuel policies. The screening is based on data from reputable third-party data vendors and non-government organizations (NGOs), in addition to internal analysis. At present, Algebris excludes from the investable universe financial institutions with a score lower than that permitted by its internal limits. Lastly, financial institutions should either be a member of the Net Zero Banking Alliance (or equivalent sector initiative) or have a set Science Based Target reviewed by the SBTi and/or other credible science-based emission reduction targets.

5. Sovereign Investment

Algebris Article 9 UCITS funds are subject to screening that excludes from the investment universe all debt (or funding) instruments issued by sovereign entities that do not satisfy minimum criteria set by Algebris. This includes debt issued at the sub-national (municipal or state) level as Algebris considers these as part of the overall state structure. The policy may also apply to certain other funds where Algebris acts as investment manager should the respective management company request it. More information is available within the offering documentation of those funds.

To be eligible as an investment in these funds, firstly sovereign entities must not be subject to international sanctions or be on the High-Risk List and/or the Increased Monitoring List of jurisdictions compiled by the Financial Action Task Force ("FATF"). Secondly, the sovereign entity must pass a proprietary screening process that combines metrics from different sources to evaluate sovereign entities. This screening process is based on data from reputable third-party data vendors and non-government organizations ("NGOs"), in addition to internal analysis. The screening process evaluates (1) a country level indicator of social and governance quality provided by NGOs; (2) the degree of long-term commitment from major multilateral organizations towards the country; and

23 Based on PAB requirement to exclude companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh, which we interpret as encompassing all fossil fuel electricity generation

24 Based on PAB requirement to exclude companies deriving more than 10% of revenues from production of oil fuels – as PAB requirements do not distinguish between conventional and unconventional fuels

25 Based on PAB requirement to exclude companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh, which we interpret as encompassing all fossil fuel electricity generation

(3) a qualitative examination of a country's (i) adherence to international treaties and agreements, and (ii) its climate change exposure. At present, Algebris excludes from the investable universe sovereign entities with a score worse than that permitted by its internal limits.

In more detail, the proprietary screening process works as follows:

(1) Country level indicator of social and governance quality provided by NGOs

Algebris utilizes the **Fragile States Index**[26], based on FFP's "CAST" framework, which evaluates the risk of a sudden deterioration in social and governance quality of a given country using twelve conflict risk indicators. These indicators are divided into four major pillars, each with three subsections, with a score from 1 to 10. We assign higher weight to the political pillar (state legitimacy and human rights) and the cohesion pillar, and lower weight to the economic and social pillars, which often capture more transitory and endogenous macroeconomic factors, and it therefore may not be necessarily reflective of the country's institutional and geopolitical situation[27]. The model calculates a weighted total score ranging from 0 (best) to 10 (worst), which is used to rank countries and determine their eligibility for inclusion in the investable universe. Countries scoring below a given threshold are allowed, while those ones scoring above are flagged for potential exclusion. In order to determine the threshold for inclusion, we set the initial indicator threshold at a level that would exclude the bottom 15% of countries included within the model[28]. Such a threshold level corresponds to a score of 7.2 in the indicator threshold and is based on the most recently available FSI dataset. The initial 15% threshold was chosen to be consistent with the best-in-class criteria we apply to corporate issuers across our Article 9 UCITS funds, where we exclude companies falling within the bottom-15% of the respective sector's ESG score distribution.

(2) The degree of long-term commitment from major multilateral organizations towards the country

The second element is a country's **participation in the International Monetary Fund (IMF) Extended Funding Facility (EFF) program[29].** This binding parameter acts as an override for Article 9 UCITS funds. If a country participates in an IMF EFF program, it receives a conditional exemption from the initial FSI screening, and it is thus allowed by the policy. The rationale for this consideration is that IMF EFF programs represent multi-year commitments from large multilateral institutions towards a given country and are conditional to a very specific reform and development path. They thus tend to signal the belief of the international community in a country's ability to develop and/or recover. Our stance is that in these cases we are open to co-invest with the IMF and other multilateral organizations (which almost always join the IMF in disbursing conditional funds over the life of EFF programs) as the country is deemed by them to have strong potential to improve.

(3) Qualitative examination of a country's (i) adherence to international treaties and agreements, and (ii) its climate change exposure

Finally, we add a qualitative examination of a **country's (i) adherence to international treaties and agreements, and (ii) its climate change exposure.** The first component evaluates whether a country is a signatory to, or has ratified, several key international conventions, including: the Paris Agreement, the Montreal Protocol and Vienna Convention, and the Convention on Cluster Munitions. A country's participation in these treaties can provide insights into its commitment to international norms and cooperative behavior. But adherence to international treaties can be affected by changes in the political priorities of local governments, so we think it should not be taken as a binding indicator of sovereign quality. The second component focuses on evaluating a country's readiness to address climate change

[26] See https://fragilestatesindex.org/ for more information.

[27] We have associated a 35% weight to the cohesion and political pillars, while attributing a combined 15% weight to the economic and social pillars.

[28] See https://fragilestatesindex.org/global-data/ for the list of countries included within the model.

[29] See https://www.imf.org/en/About/Factsheets/Sheets/2023/Extended-Fund-Facility-EFF for more information.

challenges. This is achieved using the ND-GAIN Index[30], which is comprised of two indicators: a climate readiness score and a climate vulnerability score. These scores measure a country's susceptibility to climate risks and hazards and how prepared a country is to face them. While positive or negative outcomes from this third pillar assessment are not binding to a country's inclusion in or exclusion from our investment universe, they can be pertinent to a country's suitability for investment and are hence reviewed as part of the investment decision process. As a way of non-exhaustive example, the qualitative examination may result in a sovereign issuer being excluded from the investment universe if a country is not included in the FSI dataset or participates in an IMF EFF program and the qualitative examination identifies key concerns with a country's approach to environmental, social and/or governance issues. In the unlikely event of this taking place, these decisions will be made according to the policy strategy and will heavily depend on taking into account the investment mandate of the fund and the best interests of investors.

The procedure laid out above yields a list of excluded sovereign issuers. Such list is subject to annual review, in line with the review process for all our ESG policies. The review for this policy will encompass mainly two elements. First, all the quantitative parameters described at points 1-3 above are updated annually, leading the list to mechanically change accordingly. Second, the Algebris ESG team qualitatively reviews the appropriateness of the parameters to ensure the screen is still fit to capture the ESG characteristics that are most material to sovereign issuers.

The indicator threshold described at point 1 of the above procedure is a key parameter, as it determines the degree of restriction the policy imposes. We set this parameter to initially exclude the bottom 15% of ESG scorers, in line with our firm-level approach to ESG best in class screening for Article 9 UCITS funds. We will keep the threshold level (7.2 for the indicator described above) constant, subject to a periodic annual review outlined below. This way, we effectively set our minimum standard equal to the 15th percentile of the current distribution of countries, and do not move it over time as the distribution shifts. An excluded country can therefore move from excluded to allowed status by achieving a score better than 7.2 and is not penalized just because all countries improve their score on average. We find this approach sensible as it allows us to include a higher proportion of countries over time in case of a generalized improvement in their ESG characteristics, and vice versa. To keep this approach in check, large shifts in the distribution can trigger a qualitative review of the policy and the threshold level of 7.2 as described in the previous paragraph.

The list of excluded sovereign issuers is available on our website.

For the avoidance of doubt, the sovereign screening only covers sovereign funding instruments – meaning that non-sovereign issuers in the country remain eligible in principle, unless they individually do not comply with the above exclusion policies and/or below positive screening.

6. Implementation

6.1. Monitoring, Control and Transparency

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 reviewed at least annually, or more frequently to respond to relevant developments.

All ESG exclusion lists are coded into the Algebris' internal automated controls system. These have fully integrated pre- and post-trade controls which include the relevant investment guidelines for a particular fund,

[30] See https://gain.nd.edu/our-work/country-index/ for more information.

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 relevant teams as well as representatives from the Risk, Trading and Compliance departments via automated e-mail notification and they are escalated to relevant boards and committees of the Algebris group, as appropriate. Algebris has also set up a dedicated ESG incident log – an integral part of the firm's incident 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, generally no later than 30 days after the most recent exclusion list update – subject to trading considerations and limitations. Such limitations may arise due to events outside Algebris' control, like market holidays, regulatory constraints (including sanctions amongst other reasons), exchange actions (including limit up/down and trading suspension) and/or corporate actions that have changed the composition of the company or of its activities. They may also arise due to Algebris' obligation to abide by the fund's prospectus, the fund's investment guidelines and/or the firm-wide internal policies that take precedence and have binding requirements. Finally exceptional circumstances may arise due to Algebris' overarching obligation to act in the best interest of its investor, especially during market turbulence and/or low liquidity situations. In such situations, where the disposal of an existing position that is found to contradict the ESG policy, the timeframe may be extended to allow for an orderly sale that does not harm the value of the position (avoiding fire-sale).

The process of extending the timeline is as follows:

- Depending on the nature of the request, any of the Investment, Trading, Risk or Compliance Teams may initiate an extension request, based on reasons that were outlined earlier and ranging from market conditions to liquidity considerations and to regulatory constraints.

- The requests should outline the rationale for extending the timeline and the outlook when the constraints may cease.

- The request for extension should be filed at least 5 days before the position is due to be closed where possible. However, there will be instances where such notice cannot be served due to unforeseen circumstances. The decision to grant an exemption sits with the Algebris ESG Review Group, with the advice of the Risk and Compliance Teams, depending on the area of responsibility the rationale of the request is based on and the relevant expertise of the teams.

- In any case the exposure to the restricted company shall not be extended during the additional time granted and every effort to reduce the exposure should be pursued. Finally, whether an extension is granted or not, regardless of market conditions and/or liquidity considerations and unless trading is impossible/prohibited, the offending exposure shall be exited within 90 calendar days since the issuer became ineligible.

6.2. Baskets and Indices

The assessment of the ESG eligibility or ESG-related credentials of holdings that comprise securities issued by more than one issuer (e.g. basket of securities, ETF or indexes) or assets with no issuer (e.g. futures on commodities or basket of commodities) is based on their breadth and theme concentration. Indices or baskets with a large number of constituents and no theme or generic themes (e.g. S&P500) are not subjected to ESG restrictions. Narrower and often industry specific baskets/indices are reviewed, and if these are found to comprise high concentration of ESG excluded issuers or assets that contradict the eligibility ESG criteria, then these shall also be removed from the investable universe.

The concentration assessment is performed pro-rata, based on either the weights assigned to the constituents, or, in their absence, based on the market value of the constituents. A concentration limit of 25% in excluded issuers shall lead to exclusion. Indices/baskets with lower concentration may also be excluded, if the theme and/or the objective of the investment (where this is defined, e.g. in ETFs) contradicts the eligibility ESG criteria applied to single securities. Concentration analysis is performed on an annual basis, when material changes to indices are identified, or at the pre-investment phase for baskets/indices that have never been assessed.

6.3. Derivatives

The assessment of the ESG eligibility or ESG related credentials of a derivative holding is performed on a look-through basis, by assessing the underlying of the derivative. When the underlying is a transferable security (stock, bond etc.), then the issuer of the underlying is examined, following the same approach defined for direct (non-derivative) holdings. In the case of a basket of transferable securities or a reference to such basket (an index, for example), a look-through approach is followed based on the constituent securities and not on the issuer of the index/basket. In cases where no tangible transferable security can be established as the underlying (e.g. an interest rate swap), the derivative in question is not assessed for its ESG credentials.

For all derivative holdings, irrespective of whether they are securities or baskets, any ESG considerations are only made when the resulting economic effect of the holding benefits from a rise in the value of the underlying (bull position), for example a short position on put option on a security or a short position on an inverse ETF. Conversely, positions that benefit from a fall in the value of the underlying (bear positions), are not subjected to ESG restrictions.

6.4. Exemptions

In limited and rare occasions, exemptions to the general rules outlined above might be considered. As a way of non-exhaustive example, exemptions could concern one or more of the following:

- Affiliates of restricted companies, which may be allowed if their activity is not related to the restricted activities.
- Green bonds or sustainability bonds issued by restricted companies.
- To cater for the uncertainty that surrounds some of these estimates, companies that are at the threshold or exceed the revenue thresholds only marginally (+2%), subject to an assessment of the nature of involvement as well as the existence of any phaseout plans.
- Companies displaying a low ESG score by third party providers, where that score is not representative of poor ESG credentials but rather of no or incomplete response to the said providers' questionnaires.
- Companies with a clear and unambiguous plan to divest from the activity that triggered the exclusion.

The process of applying an exemption to the ESG Exclusion policies is as follows:

- The relevant Investment Team initiates an exemption request for the ESG credentials of the company that contravenes the ESG policy to be re-examined, or for a specific instrument with materially different ESG profile than the company, based on independent research the Investment Team has conducted.
- The Investment Team seeks the approval of the Algebris ESG Review Group, comprised of a minimum of five individuals with appropriate skills and expertise to address regulatory, risk, legal, market, and compliance issues relating to proposed exemptions. To avoid any conflicts of interest, the membership of the ESG Review Group will not include members of the Investment Team.
- The Investment Team's requests should outline the ESG rationale for exempting the issuer, or the issue, with specific reference to the relevant ESG exclusion policy being contravened and including as supporting information the outcome of any engagement activity held with the issuer on the matter. All exemption requests are subject to enhanced initial and ongoing due diligence by the ESG team, and the Algebris ESG Review Group must approve them unanimity.
- If triggered by an issuer or issue becoming ineligible on account of an update to the Algebris ESG policy, the request for exemption should be filed within 5 days from notification that the issuer or issue has become ineligible. The decision to grant an exemption sits with the Algebris ESG Review Group. The exemption will be re-reviewed and may be retracted if the evidence it has been based on is found to have changed, with the same timelines outlined above (generally 30 days).