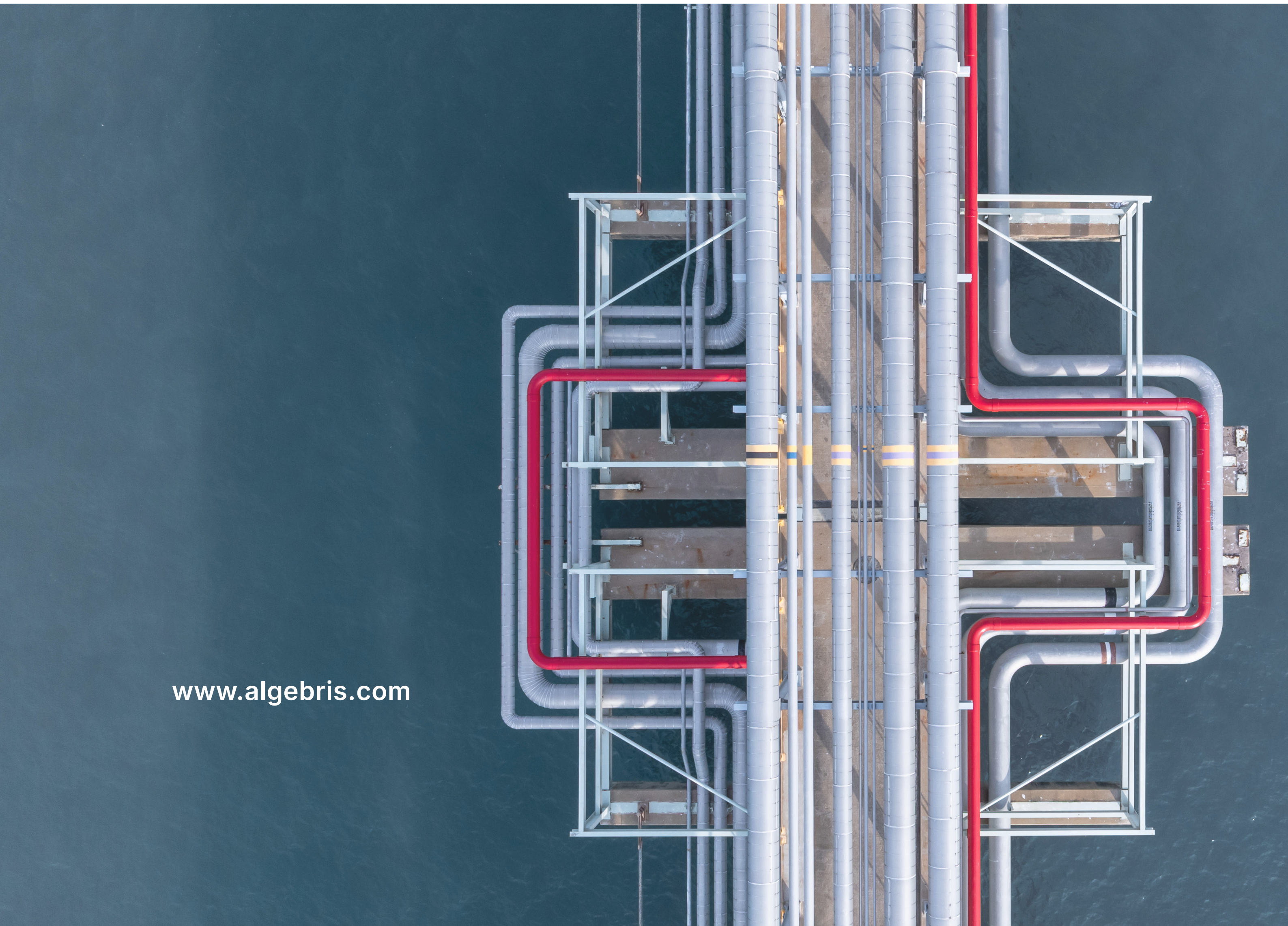
SUSTAINABILITY

Fossil Fuels Investment Policy

2025



Algebris Investments is committed to responsible investing and 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.

This document outlines Algebris' policy with regard to investment in the fossil fuels industry (summarised in the tables below). The policy applies to all Algebris Article 8 and Article 9 funds – with a distinction between strategies that we have already committed to manage in line with attaining net zero emission under our NZAM pledge ("Net Zero Aligned")[1], and strategies that are not yet committed. Our framework is anchored to the EU framework for Paris Aligned Benchmarks (PAB) – and more details are available in the Firm ESG Exclusion policy published on our website.

Exclusion thresholds for companies that are directly involved in a restricted activity (e.g. thermal coal mining) are based on the share of total revenues that those companies derive from such activities. This gives us an indication of how reliant a certain business is on activities that we deem environmentally harmful and progressively less and less viable from an economic standpoint. Whenever feasible, we also add to exclusions a financing overlay, focusing on the financing chain of restricted activity based on (currently scarce) available data. This overlay targets companies that, while not being directly involved in a restricted activity, are responsible for a significant share of the outstanding global financing available for such activity.

1. Thermal Coal Mining and Power Generation

Coal emits the highest amount of CO_2 in relation to the energy it produces when burnt. In its 2018 report, the IPCC estimated that primary energy from coal must decrease by 59-78% by 2030 compared to 2010, for the world to have a chance at limiting global warming to 1.5°C.

[1]As at January 2022, these are: 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. These represent 79% of our AUM excluding mandates, as at December 2021. See our Net Zero Asset Managers commitment disclosure for details.

The net zero pathway laid out in the IEA 2021 report requires that no new unabated coal plants and no new coal mines or mine extensions be approved from 2021 on. Coal is also becoming an increasingly un-economic investment: research shows that the share of uncompetitive coal plants is on track to hit 73% by 2025[2] globally, with peaks of 95% and 85% in China and India respectively. And yet, according to publicly available data compiled annually by the German NGO Urgewald, many new coal plants are still being planned or are under construction.

The SBTi urges financial institutions to reduce exposure to thermal coal as quickly as possible and to reach zero by 2030. This includes immediately ceasing all financial support to thermal coal companies[3] that are building new infrastructure or investing in new or additional expansion, mining, production, utilization, retrofitting, or acquiring of coal assets. The Paris Aligned Investment Initiative similarly recommends that no additional capital be allocated to companies planning or constructing new thermal coal projects and infrastructure, and that existing shareholders and bondholders in such companies engage to ensure no new thermal coal generation is developed.

Algebris subscribes to these recommendations and thinks coal extraction and power generation shall be stopped as a matter of priority. For all the Algebris funds that are managed in line with the objective of Net Zero Emissions by 2050 or sooner, we apply the following restrictions to investment in companies connected to thermal coal.

[2]Rocky Mountain Institute (2020), Carbon Tracker Initiative, Sierra Club 2020. "How to Retire Early: Making Accelerated Coal Phaseout Feasible and Just"
[3]Coal companies are defined as companies with greater than 5% of revenues from thermal coal mining, exploration and drilling, mining services, processing, trading, transport and logistics, equipment manufacturing, operations and maintenance (O&M) services, engineering, procurement and construction (EPC) services, transmission and distribution of coal-fired electricity, coal to liquids (Ctlg) and coal to gas (CtG).

Direct Involvement: investment in companies directly involved in thermal coal mining and/or thermal coal power generation is subject to strict limits (see table below). Our Article 8 and Article 9 Net Zero aligned funds are prevented from investing in companies deriving any revenue from coal. All other funds are prevented from investing in companies deriving more than 5% of their revenue from coal mining and/or more than 10% of their revenue from thermal coal power generation. We also restrict investment in any company that has a significant ownership in the companies excluded under this rule[4].

Table 1 Coal Exclusion Policy

	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%[5]	10%	0%	0%	0%	0%

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).

Expansion: in line with the recommendations put forward in the IEA 2050 Net Zero report, for our Article 8 and Article 9 Net Zero aligned funds we also exclude companies that are listed on the Global Coal Exit List (GCEL) as having coal power or coal mining expansion plans – regardless of the share of revenues they derive from thermal coal. These are companies planning to develop new coal-fired power capacity of at least 100 MW, or companies engaged in coal exploration activities, planning to develop new coal mines or planning a significant increase of at least 1 Mt annual thermal coal production.

Coal Investors and Financers: Many banks and investors are still involved in coal finance. Algebris is a global investment manager with a historical focus on financials, with over 80% of the Firm's AUM invested in this sector and a clear investment bias to high quality Global Systemically Important Financial Institutions (G-SIFIs). We believe that financial institutions are gatekeepers of the transition to a greener and more sustainable economy, due to the role they play in allocating capital across sectors.

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

[5]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

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

Algebris restricts investment in companies having significant ownership in the entities directly involved in coal mining and/or coal power (as described above)[6] and screens investment in banks and other financial institutions that play a significant role in global coal finance – in particular the top-5 coal equity investors (shareholders and/or bondholders) and the top-5 lenders.

2. Unconventional Oil and Gas

Unconventional hydrocarbons such as shale oil and gas extracted by fracking, tar sands oil and coalbed methane or Arctic oil and gas are particularly harmful for the environment and are often more carbon- and methane-intensive than conventional oil and gas.

a. Tar sands

Tar sands are one of the most destructive and carbon-intensive means of oil production.
The extraction process of tar sand deposits that are relatively close to the surface has an environmental impact comparable to that of lignite mining – typically involving deforestation, draining of wetlands and alteration of the natural course of rivers and streams. The production of one barrel of bitumen from open pit mining requires 3 to 4 barrels of water, and yields as a by-product a poisonous slurry that is typically stored in tailings ponds exposed to high leakage risks[7]. Deeper tar sands deposits are exploited though in-situ extraction methods that do not require tailings ponds, but generate wastewater that can seep into the surrounding soil.

b. Arctic Oil

The exploration and drilling of oil in the Arctic poses the risk of an irreversible severe impact on a unique ecosystem, and risks accelerating climate change in a region already very exposed to it[8]. Climate change makes onshore oil and gas extraction in the Arctic easier, and at the same time more dangerous. As the Arctic tundra is thawing due to global warming, this creates gigantic sinkholes and destabilizes the ground under pipelines and waste pits, making spills of wastewater, gas and oil more likely. Moreover, oil and gas production and the connected industrialization emits soot (black carbon), which falls onto the nearby ice and turns it black. As a consequence, the ice absorbs more heat, melts faster, and accelerates the warming.

c. Fracking

Fracking is an extraction method used to access gas and oil trapped in deep rock formations, by pumping fracking fluid into the ground to crack open the rock and release the trapped hydrocarbons. To extract unconventional oil and gas through fracking, companies need to drill more wells than for conventional oil and gas production, thus increasing the risk of gas leaks and severely affecting the natural landscape. Fracking also poses a threat to ground and surface water. The extensive use of water increases the risk of water shortages and droughts in fracking regions. Oil, gas or fracking fluids can seep through the cracks in the rock and into the groundwater. In addition, spills, deliberate dumping or inadequate storage and disposal of fracking fluid or wastewater contaminate soil and surface waters.

[7] See the Global Oil and Gas Exit List: https://gogel.org/en/

[8] According to the Intergovernmental Panel on Climate Change (IPCC), the Arctic is heating up twice as fast as the rest of the globe. See: https://www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/

d. Extra Heavy Oil, Ultra Deepwater, CBM

Extra heavy oil is a high-density oil, difficult to produce, transport and process. Its recovery is very water-intensive and production often draws from the same water source as neighbouring communities, increasing the risk of water shortages. Extra heavy oil is chemically complex, and it contains heavy metals and high levels of sulfur. The removal of this component creates toxic waste that can leak into the environment.

Ultra deepwater wells are located at least 1,500mt below sea level. This production is riskier than offshore production on the shelf, as accidents at these depths are almost uncontrollable and can have catastrophic effects. While the risk of accidents is the biggest threat related to ultra deepwater production, routine drilling can also have severe impacts on the fragile ecosystems at the bottom of the sea.

Coalbed Methane (CBM) is fossil gas, trapped by pressurized water in coal seams located between 200 and 1,100 meters underground. Extraction typically requires a combination of dewatering and fracking, which can have negative effects on the groundwater level. The water that is pumped out of the coal seams contains heavy metals and radioactive components, posing the risk that leaks can contaminate surface waters or seep into groundwater supplies.

Our Net Zero aligned funds are prevented from investing in companies deriving any (0%) revenues from exploration/extraction of either Tar or Arctic oil. All other funds are subject to strict revenues thresholds when investing in companies operating in those areas (10% of revenues for Tar Sands and 5% for Arctic). Algebris will also not invest in any company having a significant ownership in the companies excluded under this rule[9].

Table 2 Coal Exclusion Policy

	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
Arctic Oil - exploration, extraction, distribution, refining	10%	5%	0%	0%	0%	0%
Tar Sands - exploration, extraction, distribution, refining	10%[10]	10%	0%	0%	0%	0%

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; IG Financial Credit; 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; IG Financial Credit; 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).

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

[10]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

We currently do not have data tracking the share of companies' revenues derived from fracking, CBM, extra-heavy oil and ultra deep-water oil, although we expect most of these to currently fall within the perimeter of what our ESG data provider Sustainalytics includes in the total revenues from oil and gas (see next section). However, we look at the data collected in the Global Oil and Gas Exit List (GOGEL) as an input to the investment process. If not excluded on the basis of the other fossil fuel exclusions described in this document, investment in companies listed in GOGEL as having a share of production or expansion in fracking, CBM, extra heavy and/or ultra deepwater oil of 50% or higher will be subject to closer scrutiny by Algebris ESG team.

Table 3 Thresholds for closer scrutiny (fracking, CBM, heavy, ultra deepwater)

	Article 8 **Non-Net Zero Aligned**	**Article 8** **Net Zero Aligned**	**Article 9** **Net Zero Aligned**
Unconventional % of production		≥ 50%	≥ 50%
Unconventional % of expansion		≥ 50%	≥ 50%

3. Conventional Oil and Gas

While having a significant footprint, conventional oil and especially gas are likely to remain a bridge fuel in the transition towards full decarbonization, at least in the short term. Recent discussions on the inclusion of gas in the EU Taxonomy of sustainable economic activity, following the late 2021 spike in energy prices, provide clear 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 the Article 8 and Article 9 funds managed in line with attaining net zero emissions by 2050 or sooner, we restrict investment in companies that derive more than 40% of revenues from the production of conventional oil and gas. Our Article 9 funds are subject to stricter restrictions on account of its thematic focus (see table below).

[10]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

Table 4 Oil and Gas Exclusions

	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
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%[11]			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; IG Financial Credit; 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; IG Financial Credit; 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).

4. Implementation

4.1 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, 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.

[11] 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.

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.

In its FI-R11 recommendation, the Science Based Target Initiative (SBTi) urges financial institutions to disclose the value of their annual investments (public equity, private equity, corporate bonds), direct project financing and lending to fossil fuel (oil, gas, and thermal coal) projects and companies. Algebris firmly believes in transparency, and the Firm published aggregate data on exposure to companies active in fossil fuel industries across its portfolios in its 2024 Climate Report. Morever, for all our UCITS funds we publish monthly or quarterly (depending on the fund) sustainability reports that include the share invested in companies involved in fossil fuels and a detailed breakdown of the portfolio-level exposure to themal coal, arctic oil, and oil sands, as well as other environmental metrics at the portfolio level.

4.2 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.

4.3 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.

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5. 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.

More details on implementation of the exemptions process are available in our ESG exclusion policy published on our website.