Algebris Investments

ESG and Responsible Investment Policy

April 2021

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Algebris INVESTMENTS

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 these factors are vital for driving sustainable growth and delivering a transition towards a greener and fairer economy.

We strive to integrate ESG into our culture, our strategies, and importantly our investment process. ESG factors are key drivers for many of our clients and investors and responsible investment forms an integral part of our fiduciary duty. We are aware that our impact on the environment and society manifests itself first and foremost through the choices we make when allocating funds and constructing portfolios. At the same time, we believe that successful approaches to integrating ESG factors can enhance the ability to generate returns and help us better understand and manage risk.

Algebris aims to incorporate ESG factors across the core areas of the Firm's operations through research, analysis, and decision-making. By adopting and adhering to an ESG and Responsible Investment Policy and making appropriate disclosures, we aim to make our approach clear to both existing and potential investors, as well as the public at large.

- This Policy covers the following topics:
- Algebris' approach to ESG and Responsible Investment
- Algebris' participation in ESG-related initiatives
- Algebris' ESG governance and organizational structure
- Algebris' policy on ESG integration in the investment process
- Algebris' policy on stewardship and engagement
- ESG in the Firm's operations and Corporate Social Responsibility
- Disclosure requirements

The ESG Policy is maintained by the Firm's ESG Committee and will be reviewed on an annual basis, or more frequently if required. If you have any queries in relation to this Policy, please consult the Firm's ESG Committee accordingly[1].

1.1 Relevant Definitions

The UN PRI defines **responsible investment** as a strategy and practice to incorporate Environmental, Social and Governance (**ESG**) factors in investment decisions and active ownership.

ESG factors are non-financial factors that responsible investors use to screen potential investments and consider their impact on the environment and society at large. ESG metrics can be collected on a variety of firm-level measures, such as:

- **Environmental (E)**: measures of the company's impact on nature and the environment, including but not limited to GHG emissions, use of natural resources, pollution, waste, biodiversity.

[1] For inquiries, Algebris ESG Committee can be reached at the email address: ESGCommitee@algebris.com

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- **Social (S):** indicators pertaining the way a company manages relationships with employees, suppliers, customers, and the communities affected by its operations, including in areas like human rights, labour standards, welfare, education, living standards.

- **Governance (G):** factors related to a company's overall corporate culture, including but not limited to anti-corruption and anti-bribery policies, tax policy, executive compensation, accountability and oversight, board composition.

The Regulation (EU) 2019/2088 on sustainability related disclosures in the financial services sector (SFDR), which came into force on 10 March 2021, introduces the concept of **sustainable investment,** which refers to an investment in an economic activity that:

- Contributes to an environmental or social objective;
- Does not significantly harm any of those environmental objectives; and
- Where the investee companies follow good governance practices.

Article 2 of SFDR also provides a (narrower) reference to **sustainability factors** which includes:

- Environmental, social and employee matters
- Respect for human rights
- Anti-corruption and anti-bribery matters

1.2 Our Approach

At Algebris, we rely on a combination of different approaches to Responsible Investment, namely:

1. **Screening and Exclusion** – a negative screening process which excludes certain securities from the investment universe by virtue of ethical, environmental, and other non-economic factors, or a positive screening which includes certain securities (depending on investment potential).

2. **Integration of ESG factors** – identifying certain characteristics of an investment (that may not be reflected in its price) which may impact its appeal from a financial and non-financial perspective, as well as assessing overall alignment of portfolios with ESG factors.

3. **Engagement** – seeking to direct the behaviour of an investee company to enhance the company's long-term sustainability, through a focus on promoting good ESG practices or remedying negative ESG practices.

These approaches are applied differently across our investment strategies, taking into account the focus of each strategy, as well as the geographic and sector composition of the respective investment universe. We believe this tailored approach is appropriate to ensure a coherent and effective ESG integration framework across the Firm's different investment activities, identifying the ESG issues that are most material to different types of investments and the specificities that may be relevant to ESG performance.

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1.3 Participation in ESG Initiatives

Algebris has been a signatory to the **United Nations Principles for Responsible Investment ("UN PRI")** since 2019. We have fulfilled the obligation under the UN PRI by developing this Policy and integrating the UNPRI Six Principles below (the **"Principles"**) into our business processes:

- Principle 1: ***We will incorporate ESG issues into investment analysis and decision-making processes.*** 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 propose and/or 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 will actively participate in CDP's 2021 Non-Disclosure campaign. In 2021, we will also review our engagement process in a way that will make it easier to report engagement metrics. The ESG and investment teams will conduct ad hoc individual engagement with invested entities on ESG issues that may emerge from our analysis of their performance, and thematic engagement centered on our commitment to Net Zero Asset Management Initiative.

- Principle 4: ***We will promote acceptance and implementation of the Principles within the investment industry.*** As a key player in the financial sector, Algebris also engages directly with regulators and supra national authorities on ESG issues, where relevant. Examples of our engagement is 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 detailed below. In 2021 we are joining the Net Zero Asset Managers Initiative.

- Principle 6: ***We will each report on our activities and progress towards implementing the Principles.*** Algebris will submit its first UN PRI reporting in 2021 and will produce its first engagement report at the end of 2021.

Algebris actively participates in several working groups and collaborative ESG and/or responsible investment (**"RI"**) engagement initiatives.

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In 2020, we became supporters of the **Task Force on Climate-related Financial Disclosures (TCFD)** and joined the **Carbon Disclosure Project (CDP)** as an investor signatory. In 2021, we will participate 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 are joining the Net Zero Asset Mangers Initiative – promoted by the Institutional Investors Group on Climate Change (IGCC). 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.

PRI Principles for Responsible Investment

CDP DISCLOSURE INSIGHT ACTION

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

2. ALGEBRIS ORGANISATIONAL STRUCTURE FOR ESG

2.1 Governance

We have robust and formalised governance arrangements in place to ensure that ESG is integrated into the Firm's culture across all the key business functions. The Firm's ESG committee (the **"ESG Committee"** or **"the Committee")** is tasked with this responsibility. The ESG Committee is comprised of the Group CEO and other senior individuals from the Investment, Business Development, Compliance, Legal and Risk teams who are based in different regional offices across the group (Senior Management).

The ESG Committee comprises also one representative from the investment team for each of our strategies (the **"Investment Professional"**). The Investment Professional is responsible for driving the operational integration of ESG consideration into the investment process of their respective strategies. The involvement of members from the Algebris Risk team ensures that sustainability risks are thoroughly integrated into the investment decision making process. The involvement of members from the Firm's Investor Relations team ensures that ESG factors and sustainability risks are reflected in the Algebris marketing materials in accordance with the relevant requirements.

The ESG Committee is chaired by the Head of ESG, and it meets formally every quarter. The group CEO and the Head of Risk also participate in these meetings.

The Head of ESG is also a member of the Firm's EXCO-7 Committee – a senior executive body that discusses strategic and priority issues for the business and meets monthly. This ensures that Senior Management is routinely informed and fully involved in the development and implementation of the Firm's ESG policy.

The Committee is responsible for developing the Firm's ESG investment integration strategy, working closely with the investment team to set up an internal ESG research framework and formalize an engagement process with the investee companies.

In addition, the ESG Committee is also responsible for:

- Keeping abreast of relevant ESG regulatory development, in consultation with the legal and compliance departments of the Firm;
- Monitoring compliance with the EU SFDR and other relevant regulations, in consultation with the legal and compliance departments of the Firm;
- Managing the integration of ESG into the Firm's investment process;
- Periodically updating the ESG exclusion lists and screenings;
- Reviewing the ESG investment integration strategy from time to time;
- Ensuring the monitoring for ESG factors remains adequate;
- Overseeing ESG external research services;
- Ensuring that the ESG Policy is up to date; and
- Arranging for training of staff on ESG related matters.

ALGEBRIS ORGANISATIONAL STRUCTURE FOR ESG

The ESG Committee also oversees projects to embed ESG and sustainability considerations in the wider context of the Firm's activities. For example, it has coordinated Algebris climate strategy and the AlgeTREES carbon offsetting project (see section 6.2).

The current membership of the ESG Committee is detailed in the table below. Their profiles can be found on our website at this link.

Member	Responsibility	Team
Silvia Merler	Head of ESG Committee Oversight and management of ESG strategy and research	Research
Davide Serra	Strategic Oversight	CEO
Tom Cotroneo	Risk Oversight	Head of Risk
Ginevra Bargiacchi Alessandro Mancini Giancarlo Bollero Vincent Curotto Lennart Lengeling Elisa Natali Maria Sole Bozzi Antonio Focella	Investment integration - Team coordinator Investment integration - Climate strategy Investment integration - Financial Credit Strategies Investment integration - Financial Equity Strategies Investment integration - Macro Strategies Investment integration - Italian Equities Strategies Investment integration - NPL Strategy and Green Division Investment integration - Research	Investment / Research
Solveig Leary	External ESG research Investor communication	Business Development
Dimitrios Karadimos	Investment integration Risk management	Risk
Karina Cooper	Regulatory oversight	Compliance
Polina Hristova	Legal Oversight	Legal
Lucy Challis	Carbon offsetting project execution	Hakuna Matata

2.2 Objectives, Policy and Disclosures

Our general ESG objectives at Firm's level are the following:

- To integrate ESG considerations into our culture, business operations and investment processes
- To generate value for our clients and investors by investing responsibly and sustainably
- To exclude certain investments that we deem harmful to the planet, or to society at large
- To assess companies' ESG performance and promote a best-in-class portfolio selection
- To engage with companies in order to achieve positive change

ALGEBRIS ORGANISATIONAL STRUCTURE FOR ESG

This Policy sets out our approach to ESG, and it outlines the controls and processes we have in place to ensure that we take ESG factors into account throughout our investment process.

The Policy has been reviewed and approved by the ESG Committee and by the Firm's CEO and Senior Management. It will be reviewed and re-approved at least once a year. The ESG Committee regularly reviews the Firm's approach to ESG investment integration and evaluates the effectiveness of controls, process and policies in place.

We are transparent about our approach to ESG by making clear disclosures on our website and other publications, to provide investors with the information should they need it to make informed investment choices based on ESG factors. Our disclosures are reviewed regularly to ensure they are up to date and appropriate in light of regulatory developments.

2.3 Data Sources

To complement our own internal research capabilities and proprietary tools, we source a variety of ESG data and research from specialised providers (indicated in the table below). In addition, on specific themes, our internal research uses data from NGOs (Urgewald, Banktrack, CDP, PCAF, RAN and others).

PROVIDER	EXPERTISE	DESCRIPTION OF THE SERVICE
S&P – RobecoSAM	Corporate Sustainability Assessment (CSA)	Current and historical **ESG scores** across 68 criteria's and 61 industries. Questionnaire-level **ESG KPIs**. S&P Global Product Involvement Controversy and Questionnaire (available from May 2021)
S&P - Trucost	Environmental Analysis	**Environmental metrics** (carbon, water, waste incl. recycled, air pollution, land & water pollution, natural resources) and priced externalities. Carbon data (scopes 1, 2, 3) in line with GHG protocol standards. **Environmental Climate Risk Models:** 2 Degree Alignment; Carbon Earnings at Risk; Physical Risk**;** **Positive Impact:** SDGs; Green Revenues
Sustainalytics	ESG scoring and research	**Product Involvement** data and research
Vigeo Eiris	ESG scoring and research	**ESG scores, data, and research** for financials

ALGEBRIS ORGANISATIONAL STRUCTURE FOR ESG

2.4 Training

Algebris believes in the need to educate our staff on the importance of ESG factors in investment and in business operations more broadly. The Head of ESG successfully completed the courses in “Foundations of Responsible Investment” and “Advanced Responsible Investment Analysis” offered by the UN PRI Academy. We are working on making similar ESG training available more broadly throughout the firm, especially for the members of the ESG Committee.

All investment team members are an integral part of our ESG strategy development and are actively consulted in areas of ESG integration. 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.

All relevant staff will be trained on the Firm’s policy in relation to ESG and they will regularly receive refresher training. Finally, to address the importance of equal opportunities and unconscious bias, the firm is also planning to make online courses on equality and diversity compulsory.

2.5 Monitoring

We monitor our investment process and the funds/portfolios we manage to ensure that we are complying with the funds’ investment objectives, our objectives on responsible investment, and our policy on the integration of ESG factors in the investment process.

Our 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. 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.

The Algebris ESG Committee and the portfolio managers conduct periodic monitoring of the existing portfolios to check that positions remain within sustainability risk limits and take corrective action if those limits are approaching a safety buffer or are breached. The Risk team monitor exclusion lists on an ongoing basis.

3. ALGEBRIS ESG EXCLUSION POLICY

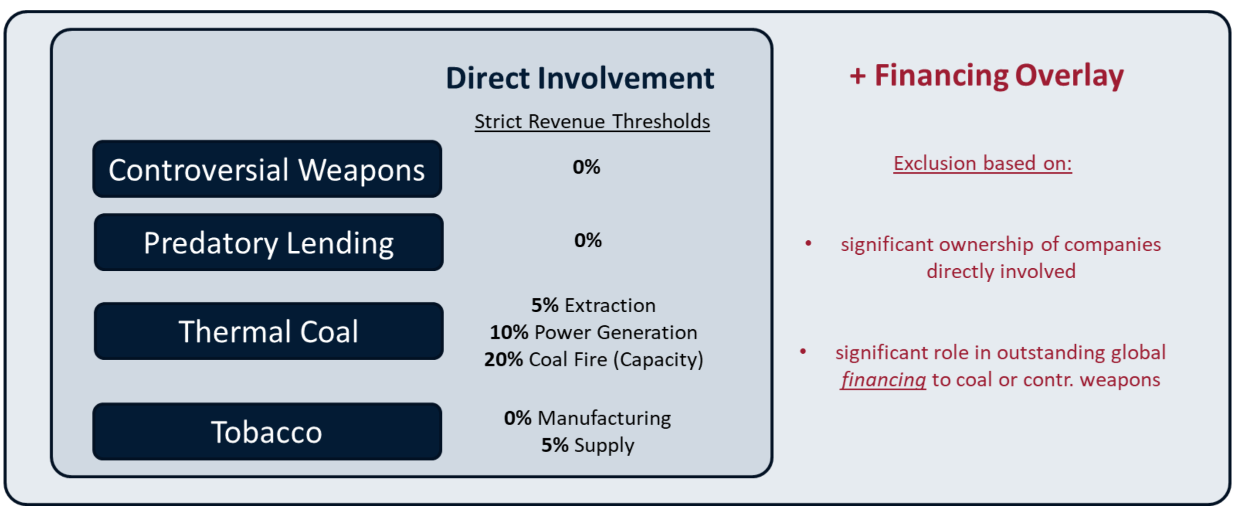
Algebris has a commitment to responsible investing and an important part of this commitment is to ensure the Firm is not involved in the financing of certain activities that we deem unethical and/or especially harmful to the environment and society at large. This is the rationale underlying our ESG exclusion policy.

All our exclusion policies apply at firm level, to all liquid Algebris-branded funds where Algebris controls the investment policy in its capacity as the sole investment manager. Algebris also permits individual investors within our segregated managed accounts to create their own additional exclusion lists.

Algebris is a global investment manager with a historical focus on the financial sector, and over 80% of AUM at firm level invested in this sector across the capital structure. We consider the financial sector to be a 'gatekeeper' of the transition away from environmentally and socially harmful activities, due to the key role that the sector plays in allocating funds across the economy.

Hence, we believe that adding a **financing overlay** to all our exclusion policies is essential to be able to use our power as a specialist investor to stir an allocation of capital flows towards a greener and more sustainable economy, and away from unethical or harmful economic activities. Our ESG exclusion policy approach reflects this conviction by formally considering both the *direct* involvement in controversial activities and the *funding* of such activities, as grounds for a company's exclusion.

Figure 1 Algebris Exclusion Framework



ALGEBRIS ESG EXCLUSION POLICY

3.1 Currently Applied Exclusions

CONTROVERSIAL WEAPONS

Algebris Controversial Weapons policy defines an exclusion list of companies involved in manufacturing of controversial weapons encompassing anti-personnel landmines, cluster munitions, bio and chemical weapons, nuclear weapons and non-detectable fragments, incendiary, blinding laser weapons. It also encompasses top financers of controversial weapons.

Algebris will not invest in debt or equity issued by companies that:

1. We believe to be involved in, and derive any revenue from, the manufacturing of controversial weapons (both companies involved in the core weapon system and companies providing components/services for the core weapon system that are either not tailor-made or not essential to the lethal use of the weapon), and/or

2. Have a significant ownership in companies under (1)

Algebris will also not invest in debt or equity issued by the top-5 global investors in nuclear weapons or the top-5 global investors in cluster munitions.

Algebris will at all times maintain an exclusion list of companies according to the criteria listed above. The list and a more detailed description of the policy are publicly available on our website here and here.

PREDATORY LENDING

The Algebris Predatory Lending policy defines an exclusion list of companies involved in unethical lending practices. “Predatory Lending” refers to any type of unscrupulous lending practice where a lender takes advantage of a borrower. It usually involves borrowers being charged high-cost loans over a short-term horizon, with little or no credit checks, often accompanied by irresponsible collection practices. The lack of assessment of the ability of the borrower to repay can lead to the borrower being trapped into a cycle of loan renewals and debt accumulation – which is an especially relevant risk for low-income, elderly, or otherwise vulnerable people.

As a global investment manager with a historical focus on the financial sector, an important part of our ESG commitment is to ensure that Algebris is not involved in the financing of companies recognised to follow unethical lending practices.

Algebris will not invest in debt or equity issued by companies that:

1. Derive any revenues from predatory lending activities, and/or
2. Have a significant ownership in companies under (1)

Algebris will at all times maintain an exclusion list of companies according to the criteria listed above. The list and a more detailed description of the policy are publicly available on our website here and here.

ALGEBRIS ESG EXCLUSION POLICY

THERMAL COAL

Our view is that coal-power generation must be reduced significantly, as a matter of utmost priority. Coal emits the highest amount of CO2 in relation to the energy it produces when burnt. According to the 2018 IPCC report[2], primary energy from coal must decrease by 59-78% by 2030 compared to 2010, if we want to limit global warming to 1.5°C.

Algebris will not invest in debt or equity issued by companies that:

1. Derive 5% or more of their total revenues from the extraction of thermal coal, and/or
2. Derive 10% or more of their total revenues from thermal coal power generation, and/or
3. Whose coal-fired power generation capacity accounts for 20% or more of total capacity, and/or
4. Have a significant ownership in companies under (1), (2), (3)

For companies that do not get flagged by the revenue-based thresholds but only by the capacity threshold, Algebris uses a two-step approach. If coal accounts for 50% or more of the investee company's power generation capacity, the company is added to the exclusion list automatically (as we take such a high share of coal in total power generation as a signal of very limited and slow energy transition effort). If coal accounts for between 20% and 50% of the company's power generation capacity, but the company does not breach any of the revenue thresholds, Algebris applies an additional check and adds the company to the exclusion list only if the company is also listed on the Global Coal Exist List (GCEL), an NGO-based and well-reputed source for thermal coal involvement.

Algebris will also not invest in debt or equity issued by the top equity investors in coal, or by the top lenders to coal mining/power companies.

Algebris will at all times maintain an exclusion list of companies according to the criteria listed above. The list and a more detailed description of the policy are publicly available on our website here and here.

TOBACCO

We support the World Health Organisation (WHO) Framework Convention on Tobacco Control – the first global public health treaty, aimed at tackling some of the causes of the tobacco epidemics and signed currently by 182 parties covering more than 90% of the world population. Tobacco has long been proven to be unhealthy and to be a leading cause of impoverishment. Moreover, the sector is known for questionable work ethics, including child-labour in some countries.

Algebris will not knowingly invest in debt or equity issued by companies that:

1. Derive any revenues (0% threshold) from the manufacturing of tobacco products, and/or
2. Derive at least 5% of revenues from supply of tobacco-related products or services, and/or
3. Have a significant ownership in companies under (1) or (2)

[2] See table on page 14 here: https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_SPM_version_report_LR.pdf

ALGEBRIS ESG EXCLUSION POLICY

Algebris will at all times maintain an exclusion list of companies according to the criteria listed above. The list and a more detailed description of the policy are publicly available on our website here and here.

3.2 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 index) or assets with no issuer (e.g. future on commodity or basket of commodities) is based on their breadth and theme concentration.

Indices or baskets with 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.

3.3 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 (see section 3.2). In case 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.

3.4 Implementation and Control

All exclusion lists are compiled by the Algebris ESG Committee through an internal research process that combines product involvement reports from ESG specialised data provider Sustainalytics, data from NGOs active on specific ethical and ESG-relevant themes, as well as our own internal research. Algebris

ALGEBRIS ESG EXCLUSION POLICY

ESG Committee reviews the exclusion lists and policies at least once a year and reserves the right to update the lists at any point in time to respond to relevant developments.

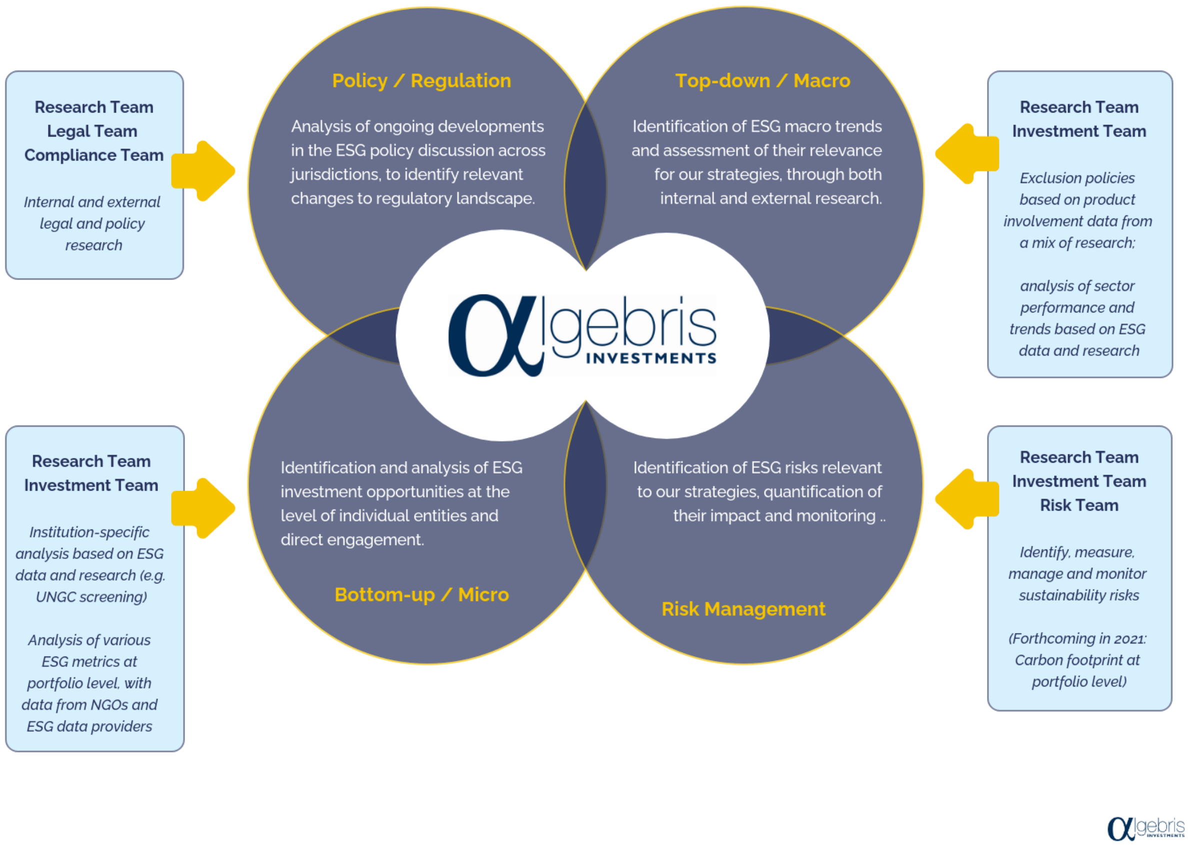
All exclusion lists are coded into the Algebris Order Management System (“**OMS**”, as defined above). The OMS has fully integrated pre- and post-trade controls which include the relevant investment guidelines for a particular fund, and restricted/black-lists and any additional risk limits that may be required. 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.

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

4. ALGEBRIS ESG INTEGRATION POLICY

Our ESG investment integration strategy aims to ensure the Firm is aware of key risks and opportunities of potential investments by incorporating additional layers of scrutiny and due diligence in our investment analysis and decision-making processes, as well as in risk monitoring.

All members of the investment and risk team are provided with access to ESG data and research services from both internal and external sources (see section 2.3), to allow for an incorporation of ESG risks and opportunities in the company-level investments analysis, as well as in the assessment and management of risks relevant to our strategies.



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 having a top-down understanding of the key ESG issues relevant for a particular 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. This top-down process is supplemented with a bottom-up assessment of the individual company's performance with respect to the key ESG metrics identified.

The process used and the indicators considered vary across strategies, in view of the specificity of investment universe and of data availability. Throughout our strategies, we employ a combination of the following techniques and tools:

- Red flag indicators to highlight significant ESG risks.
- Watch-lists for companies with significant ESG risks to be regularly monitored.
- Internal ESG research to identify best performers across the investment universe.
- Engagement with investee companies with the goal of improving ESG practices or disclosure.
- Company questionnaires and meetings to collect ESG data and discuss ESG issues.
- Setting of minimum social standards for our Non-Performing Loans (NPL) strategy

The next sections offer more detail about ESG integration across the Firm's investment lines.

4.1 Financial Credit and Financial Equity Strategies

Financing Overlay in Exclusions

Algebris Financial Credit and Financial Equity strategies are subject to the firm-level exclusion policies discussed in section 3. The investment universe for these strategies is global but limited to the financial sector. This implies that the relevant investment universe would not be *directly* affected by exclusion policies focused on direct involvement in controversial activities such as manufacturing of controversial weapons and tobacco products, or mining of /power generation from thermal coal.

However, we consider the financial sector to be the 'gatekeeper' of the transition towards a greener and more sustainable economy, so we take our exclusion policies one step further.

We have added to all our firm-level exclusion policies a financing overlay focused on the funding of controversial activities. This overlay has a meaningful impact on the universe of our financial strategies: the restricted names from the **financing overlay in our exclusion policies** as well as the names identified directly in our predatory lending exclusion list represent a significant portion of the global financials universe in terms of both market capitalisation and assets.

Norm-based Screening

For our Financial Credit and Financial Equity strategies, we routinely assess the performance of investee and potential investee companies through a norm-based screening aligned with the 10 Principles of the UN Global Compact (UNGC).

The UNGC 10 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. This means ensuring that companies are operating in ways that meet fundamental responsibilities in the areas of human rights, labour, environment, and anti-corruption.

ALGEBRIS ESG INTEGRATION POLICY

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.

The Ten UNGC Principles are clustered in 4 areas:

- **Human Rights:** Businesses should support and respect the protection of internationally proclaimed human rights (principle 1) and make sure that they are not complicit in human rights abuses (principle 2);

- **Labour Rights:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining (principle 3); the elimination of all forms of forced and compulsory labour (principle 4); the effective abolition of child labour (principle 5); and the elimination of discrimination in employment and occupation (principle 6);

- **Environment:** Businesses should support a precautionary approach to environmental challenges (principle 7); undertake initiatives to promote greater environmental responsibility (principle 8); encourage the development and diffusion of environmentally friendly technologies (principle 9);

- **Anti-Corruption:** Businesses should work against corruption in all its forms, including extortion and bribery (principle 10).

Our norm based UNGC screening is underpinned by quantitative and qualitative analysis carried out by our ESG research team, with data from specialized ESG data provider Vigeo Eiris (VE) and internal research. The aim of our norm-based UNGC screening is threefold:

- to reduce exposure to companies with especially poor practices in key UNGC-relevant areas
- to identify potential issues on which to engage with companies in the portfolio
- to identify companies that do especially well in terms of their UNGC alignment, and keep the aggregate UNGC alignment of our portfolio above sector's average

Figure 2 Algebris UNGC Framework

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
- where the company is being non-reactive about it.

If a company is found to be involved in a very serious UNGC violation (as defined above), the ESG team and the investment team need to assess if the investment becomes unacceptable. To establish that, the team will engage with the companies flagged by our UNGC screening to see whether reassurance can be obtained that they will rectify the identified breach. If this engagement appears to be unsuccessful, the final end point will be divestment and exclusion until the violations are resolved.

We typically allow for an engagement window of up to 6 months – but in selected cases the window could be extended, subject to transparent documentation from the investment team of why the extension may be warranted, and subject to close monitoring of the expected process. More details on the length of the engagement window and on the process are available in section 5.1.

Complementary to this exclusionary angle, we also apply a best-in-class approach aimed at reaching an aggregate UNGC alignment of our portfolios above the average for the reference sector.

Our UNGC screening is updated and reviewed quarterly, to ensure that any relevant events and controversies are reflected in the team's assessment. Ongoing monitoring is ensured through a timely review of controversy data.

The Algebris' Big Data Team is also in the process to finalise development of a proprietary AI/Big Data-driven controversy monitoring tool, which we plan to roll out in 2021. This tool will allow the ESG and Investment teams to monitor the potential emergence of ESG-relevant controversies on invested name and act accordingly in a timely manner – either by engaging with the company or by divesting, if deemed appropriate.

ESG Best-In-Class Screening

We closely monitor the broader ESG performance of investee companies in our financials portfolios and apply a best-in-class ESG screening.

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.

Companies are automatically watch-listed also if they score in the bottom 15% on any of the E, S, or G sub-dimensions. For our *Financial Credit* and *Financial Credit Investment Grade* strategies the thresholds for investment restriction and watch-listing are stricter, raised to 15% and 20% respectively.

Complementary to this exclusionary angle, we also apply an inclusionary ESG angle aimed at achieving an aggregate ESG score for our portfolios above the average for the reference sector. In doing so, we use ESG score measures and ESG KPIs provided by two leading providers (S&P/RobecoSAM and Vigeo Eiris).

If an investee company is flagged (either red-listed or watch-listed) according to the criteria discussed above, the investment team will immediately engage with the company on the issues underpinning the flagging, to assess whether a credible improvement can be expected. More details on the length of the engagement window and on the process are available in section 5.1.

If the investment team concludes that engagement is unlikely to be effective, the endpoint of this process will be divestment from red-listed positions at the end of the engagement window. If, on the other hand, the investment team concludes through engagement that there is enough reassurance of a credible commitment on the side of the investee company, the position could be maintained for longer – based on a detailed and transparent documentation of the reasons for this choice on the side of the investment team, and subject to close and frequent monitoring of the expected progress.

Watch-listed names are not subject to divestment requirements, but the subject of closer engagement and follow-ups compared to the other names in the portfolio.

The ESG best-in-class screening will be updated and reviewed quarterly, or more frequently if warranted by any relevant events. Algebris' Big Data Team is also in the process to finalise development of a proprietary AI/Big Data-driven controversy monitoring tool, which we plan to roll out in 2021. This tool will allow the ESG and Investment teams to monitor the potential emergence of ESG-relevant controversies on invested name and act accordingly in a timely manner – either by engaging with the company or by divesting, if deemed appropriate.

Monitoring of Fossil Fuels Funding

In light of the climate emergency, we believe that the issue of banks' financing to the fossil fuel industry is especially relevant to our sector specialisation.

While the data available on this topic is still sparse and incomplete, we are trying to integrate it as much as possible into our portfolio assessments. Using NGOs data[3] on fossil fuel financing and policies from 35 large global banks (a list that broadly overlaps with G-SIFIs) we have calculated the share of each bank in total funding issued over the 2016-19 period to the top companies operating in the fossil fuels industry, as well as the CAGR of lending over the same period.

[3] The reference report and data is available at: https://www.ran.org/bankingonclimatechange2020/

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The preliminary results show that on average the names in the Algebris financials portfolio account for a lower share in total fossil fuel financing compared to the banks not in our portfolio. The names in the Algebris financials portfolio have also on averaged decreased their fossil fuel financing over time, while the banks not in our portfolio have gone in the opposite direction. This is true both when looking at total fossil fuel funding, and more specifically at funding for fossil fuel companies that are planning an expansion of their activity (as of end-2019). This analysis will be updated annually, as new data is released.

The G-SIFIs segment 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.

4.2 Italian Securities Strategy

The 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 both direct involvement in controversial activities and the funding of such activities[4].

During 2021, the investment team responsible for the Italian Securities Strategy will roll out a systematic best in class screenings process based on ESG metrics.

Due to the skew of the portfolio towards small caps, only around 40% of the names that are typically in the portfolio are 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.

Given the bespoke nature of the Italian Securities Strategy, a two-pillars best-in-class strategy has been devised:

- For companies that are covered by our third-party ESG score services: a systematic screening based on the ESG scores and KPIs from S&P-Robeco, including an assessment of compliance with the 10 principles of the UN Global Compact.
- For companies not covered by our third-party ESG score services: a proprietary ESG questionnaire will be submitted directly by the investment team to the investee or perspective investee companies. The questionnaire will feature a set of common questions and a set of sector-specific questions. Some of the common questions will count as minimum requirements for companies to be deemed investable and will include also UNGC-relevant indicators.

[4] In relation to the controversial weapons exclusion policy, Algebris Core Italy Fund reserves the right to have the option to invest in Leonardo SPA. See the policy and exclusion list for more details.

In Q2 2021, we are phasing in a UNGC screening for our Italian Securities Strategy, based on two pillars. For the companies that are covered by our third-party ESG data services, we will assess UNGC compliance using external data. For the part pf the portfolio (small-caps) that is not covered, the investment team will conduct an internal due diligence by sending a proprietary questionnaire (including UNGC-relevant questions) and by monitoring closely the insurgence of controversies on those names.

4.3 Global Credit Strategy

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, the Global Credit Strategy is subject to all of the firm-level exclusion policies covering both direct involvement in controversial activities and the funding of such activities. In Q2 2021, we are also planning to phase in a UNGC screening for our global credit strategy.

The investment team monitors ESG metrics of the investee companies and seeks to achieve a good ESG performance for the portfolio on average, including in UNGC-relevant areas. 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.

4.4 Non-Performing Loans (NPL) Strategy

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. Our NPL III vehicle is covered by 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, we apply strict minimum social standards and safeguards to the Algebris NPL Strategy[5]:

- **Settlement process:** we seek 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:** in our opinion, the loans that present the highest social risk are those that: (i) have been given to individuals; (ii) are secured by residential assets towards which we pursue a judicial

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

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[6].

Our 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)[7].

We focus on the high-end residential market (primary locations, quality of the 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[8].

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[9].

In 2021, we 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.

4.5 Product Development

When developing new products, we also consider how the new products will take into account ESG factors, what the target market will be, and how the new product will be developed, researched, valued and managed using the ESG research and tools we have built.

Coherently with the ESG investment integration process that Algebris has already undertaken, in 2021 the firm is setting up a new Business Unit ('Green Unit') entirely focused on the energetic and ecological transition, which will comprise of experts with an industrial background and a proven track record in the energy sector. The Green Unit will allow us to strengthen our knowledge and understanding of how the major developments connected to the energy transition will impact risks and opportunities for our current strategies, but also set the ground for new investment product offerings.

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

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In the short term, the Green Unit will focus on adding a green energy overlay to the investment process of our NPL Strategy. In the medium term, it will work on mobilizing capital for investment in the alternative energy sources, circular economy, electric mobility, smart cities.

5. ALGEBRIS POLICY ON STEWARDSHIP & ENGAGEMENT

Algebris considers divestment as a last resort option – because by divesting the asset manager gives up any opportunity to exert influence over companies' or sectors' ESG practices. We aim to use or role as investors to achieve positive change, and hence a key part of our approach to ESG is our role in actively engaging with investee companies with the aim to improve the long-term sustainability of their business model. Algebris uses a combination of highly disciplined bottom-up fundamental research informed by top-down understanding of the macro context in which such investments occur and may be influenced.

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. Active Ownership is the process of exercising voting rights attached to securities and/or entering into dialogue with issuers. Algebris will exercise voting rights attached to securities in accordance with the Algebris Voting Policy.

Our ESG engagement policy centres around 3 pillars: ***ad hoc* engagement, thematic engagement,** and engagement through **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 engagement with the investee companies and on-going monitoring of reporting including review and analysis of shareholder communications and publicly available information and intervening in the event of potential or actual breaches of ESG standards.

COLLABORATIVE ENGAGEMENT

Algebris participates in several collaborative ESG engagement initiatives (TCFD, CDP, Say on Climate, Net Zero AM).

In 2021 we opted in to CDP's non-disclosure campaign and will target 8 companies

***AD HOC* ENGAGEMENT**

Engagement to improve the long-term sustainability of companies' business models.

Investment team to engage with companies flagged by our UNGC screening and/or our ESG best-in-class screening.

THEMATIC ENGAGEMENT

Engagement aligned with our commitment under Net Zero Asset Managers Initiative

(Banks' fossil fuel funding; disclosure of carbon intensity of banks' loan book; climate action plans and phase out)

5.1 *Ad Hoc* ESG 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. To this end, we may engage with companies on any specific issues that we identify in relation to their ESG metrics and performance, through our UNGC and our ESG best-in-class screenings or through our monitoring of ESG controversies.

In the operationalisation of both our UNGC and ESG screenings, we put significant weight on **engagement**. If an investee company is flagged according to the criteria discussed in section 4.1, the investment team will immediately engage with the company on the issues underpinning the flagging, to assess whether a credible improvement can be expected.

For our UNGC screening, we typically allow for an engagement window of up to 6 months – but in selected cases the window could be extended, subject to transparent documentation from the investment team of why the extension may be warranted, and subject to close monitoring of the expected process.

For our ESG best-in-class screening, the length of the engagement window prior to divestment for red-listed positions depends on the date when a position was initiated. For positions incurred *after* the inception of the screening (March 2021), the window for engagement is set at 3 months. This has been determined by taking into account the fact that it may take time for the company to implement the necessary changes and hence for the investment team to assess progress. As the screenings are regularly updated, after inception it is unlikely that any large positions could accumulate on names with an ESG performance bad enough to present a significant risk of the company being flagged at a future point. Hence, the implications of any divestment driven by the screenings are expected to be manageable in a short window of time. For positions that were already in the portfolio at the date of inception of the screenings, on the other hand, the window of engagement before divestment from red-listed names is extended to 9 months. The rationale for this longer window is to avoid disruption from divesting in a short period of time potentially large positions that might have been incurred before the phase-in of the best-in-class screenings.

From an operational standpoint, the investment team will contact the management team of the investee company detailing any ESG-related concerns. Both the initial outreach and the follow up and company's response will be included into an engagement log that will constitute the basis for an end-year engagement report.

If the investment team concludes that engagement is unlikely to be effective, the endpoint of this process will be divestment at the end of the engagement window. If, on the other hand, the investment team concludes through engagement that there is enough reassurance of a credible commitment on the side of the investee company, the position could be maintained for longer – based on a detailed and transparent documentation of the reasons for this choice on the side of the investment team, and subject to close and frequent monitoring of the expected progress.

Watch-listed names are not subject to divestment requirements, but the subject of much closer engagement and follow-ups compared to the other names in the portfolio.

5.2 Thematic Engagement

Given our specialised focus on the financial sector and our various commitments to collaborative engagement initiative – particularly Net Zero Asset Management Initiative – starting in 2021 we will be conducting a thematic engagement with banks aimed at ensuring a proper recognition of climate risks.

This engagement will be centred around three pillars:

- **Carbon Disclosure Project Non-Disclosure Campaign**: in 2021 we are taking part to the CDP Non-Disclosure Campaign, requesting non-disclosing investee companies to respond to a climate change, forests and water security questionnaire developed and managed by CDP.
- **Say on Climate Initiative:** in alignment with the commitment stemming from our participation to the initiative in relation to our equity positions, we will also review the climate transition plans of banks in which we hold credit positions and may ask them to submit a Climate Transition Action Plan at their AGM for a shareholder vote.
- **Portfolio Disclosure:** we regard banks as the gatekeepers for the transition to a greener and more sustainable economy, but data on the carbon intensity of banks' lending is scarce and disclosure is poor. We will ask investee banks to report the carbon intensity of their corporate loan book, where they have the data, in a manner consistent with internationally recognised frameworks such as the Partnership for Carbon Accounting Financials (PCAF). We will also ask them to report a strategy for (1) increasing the nominal value of loans whose emissions are disclosed and (2) achieving annual reductions of the carbon intensity of their loan book and underwriting.
- **Fossil Fuel Funding:** on the basis of our fossil fuel funding assessment, we will ask investee banks to publish a clear phaseout plan and strategy from funding to fossil fuel – if not already available – and will engage on the subject of funding extended to new fossil fuel projects.

5.3 Proxy Voting Policy

Our Proxy Voting Policy and more recently the Shareholder Engagement Policy sets the following principles to be applied for determining when and how any voting rights held in respect of Investments are the exercised.

- Voting decision are to be made on a case-by-case basis following an assessment of the matter at hand and after taking into consideration its likely effect on the performance of the investments and the relevant separate account mandate or Algebris fund. Algebris also takes into account **long-term sustainability considerations** of each issuer when deciding to vote.
- Any votes cast must be in the best interests of the relevant client, being:

  - The separate account holder in the case of votes attaching to an Investment made under the relevant investment management agreement; or
  - The Algebris fund and the investors therein in the case of votes attaching to an Investment made by the Firm

- Algebris is a supporter of the **Say on Climate Initiative**. As part of our commitment to the initiative, Algebris will encourage all listed companies to submit a Climate Transition Action Plan at their AGM for a shareholder vote. Where companies do not do so voluntarily, Algebris will vote for and file AGM resolutions (whenever we have sufficient votes) requiring such votes.

Voting rights must be exercised in accordance with the investment objectives and policy of the relevant separate account mandate or fund.

Abstaining: in some cases, the Firm may determine that clients' best interests are served by it abstaining from exercising voting rights. The Firm will not vote where it or the relevant client is excluded from doing so by relevant laws or regulations, or in cases of conflict of interest which cannot be resolved appropriately.

Approval Process: The Investment team are primarily responsible for the Investments which they manage, including monitoring, with the assistance of the Operations team, relevant corporate actions and the assessment of when and how to exercise voting rights attaching to Investments. As a general principle, the investment team collectively approve the direction of voting however the portfolio manager responsible for the Investment will generally always approve. If, however, such individuals believe that the matter under consideration is material in the context of the Investment, or that there is a conflict of interest in relation to the matter under consideration, they shall refer the matter to the CIO/CEO for approval.

Conflicts of Interests: The Firm is required to exercise voting in respect of the Investments for the exclusive benefit of the relevant client or clients. It is possible that situations may arise in connection with the exercise of voting rights that involve an actual or potential conflict of interest. For example if exercising voting rights is for the benefit of the firm and not the clients. If personnel believe that the exercise of voting rights involve such a conflict, they must notify the Compliance Department and the matter must be referred for the consideration by the CIO.

6. ESG AND CORPORATE SOCIAL RESPONSIBILITY

6.1 ESG in Company Operations

Algebris is fully committed to ESG and sustainability not only in its investment process, but also in its wider business activities. Our commitment is embedded within the culture of the firm at several levels – starting with the value we attribute to **diversity** in our workforce. As of December 2020, we are proud to count 18 nationalities amongst our 134 employees, 43% of employees are women, and women account for 36% of senior management positions.

Algebris takes a zero-tolerance approach towards human rights violations and is committed to having ethical and sustainable business practices and supply chains. Pursuant to section 54 of the Modern Slavery Act 2015 the Firm fully supports the **Modern Slavery Act**, which aims to drive out all forms of modern-day slavery and human trafficking from business practices.

Our offices are managed with **sustainability and energy efficiency** as the guiding principles for business operations. Algebris' headquarters in London were chosen and are run in full consideration to energy and resource efficiency, water usage minimization, and waste management. We have roof solar panels, water recycling from sinks and showers, and air conditioning is restricted to working day hours. 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. Food is delivered to the office by a company that uses electronic 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. Moreover, all staff members are provided with stainless steel reusable water bottles and we only use reusable glass water bottles for our meeting rooms.

Algebris flagship office in Milan is also run with strong attention to sustainability. Air conditioning is limited to Monday-Friday from 6am until 10pm. We maintain separate bins for food, plastic, paper, glass, and we implement a strict policy of recycling for batteries, while returning empty printer cartridges to our printing supplier (which recycles all used cartridges). We opted for electronic receipts where possible and we keep used printed paper presentations and reissue (when accurate and possible). Algebris employees are advised not to use plastic or paper for food and drinks, all staff members are provided with stainless steel reusable water bottles and we only use reusable glass water bottles for our meeting rooms.

In 2019, we rolled out a major **carbon offsetting project** that we will continue to strengthen in the future (see Section 6.2 for details).

6.2 AlgeTREES – Algebris' Carbon Offsetting Project

AlgeTREES is Algebris in-house carbon offsetting project, constructed to more than compensate for our CO_2 emissions since the inception of our business activity while creating economic and social value for disadvantaged communities. In 2019, Algebris' ESG Committee performed a carbon footprint analysis of

ESG AND CORPORATE SOCIAL RESPONSIBILITY

the Firm's activities, calculating our CO2 emission based on electricity consumption, buildings cooling and heating, flights and other travel, paper usage and waste disposal.

Based on our findings, we devised a climate policy with the target to fully offset the past carbon footprint through a forestation operation. We converted our total emissions into a number of trees-equivalent, based on estimates of the potential CO2 absorption during the life cycle of trees. The estimates of both our emission and of the number of trees-equivalent are publicly available on our on our website.

Following this assessment, **in 2020 we planted 52,000 trees**. The forestation operation has been carried out in Tanzania, in cooperation with Hakuna Matata – a UK charity founded by Algerbis' CEO (see Section 6.3 for more details). The project has been constructed specifically with the aim to not only compensate for the environmental impact of our business activity, but also allow us to generate significant economic and social value for the local communities involved, in line with the principles of the UN Sustainable Development Goals (UN SDGs).

*The planting and caring of trees create an economic opportunity for the local communities, through the possibility to sell the fruits or the extraction of resins (**SDG1 – no poverty**).*

*Through the planting of fruit trees (avocado, orange, cedar, papaya, mango), the project contributes to create a cycle of sustainable agriculture with positive impact on food security of the local community (**SDG 2 – no hunger**).*

*Farmers will 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 (**SDG 4 – quality education**).*

*The AlgeTREES project naturally contributes to the fight against climate change, through a forestry increase operation that over the life cycle should more than compensate for our environmental impact since business inception. Moreover, by planting trees and caring for them in a sustainable manner, the project contributes to reduce the risks of desertification and biodiversity loss (**SDGs 13 and 15 – Climate Action and Life on Land**).*

ESG AND CORPORATE SOCIAL RESPONSIBILITY

To ensure our objective of carbon compensation is achieved, we closely monitor the survival rate of the trees planted and act accordingly. The estimate of both our CO2 emissions and the absorption capacity of the trees is periodically revised to take into account the growth of our business activity. Our long-term commitment in the context of the AlgeTREES project is to plant **1 million trees over the coming years** and we are working to make Hakuna Matata's tree-planting project a partner of Treedom.

6.3 Giving Back to Society

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

In April 2010, Davide Serra (Founder and CEO of Algebris) and Anna Barassi founded Hakuna Matata, a registered UK charity. Hakuna Matata is run by an energetic and dedicated team of volunteer trustees that include members of Algebris staff, and Algebris staff is encouraged to visit the community where Hakuna Matata works, in Tanzania. Algebris matches all donations received by Hakuna Matata, maximizing the impact of external donors. Hakuna Matata primarily focuses on helping orphaned children in Tanzania, through various education, employment and healthcare programmes. It is also our partner in implementing Algebris' carbon offsetting project locally.

SUPPORTING OUR COMMUNITES

In 2020, during the initial months 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.

ESG AND CORPORATE SOCIAL RESPONSIBILITY

EMPOWERING TALENT

We believe 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. This commitment to donate IT equipment will continue in the future.

Since 2017, Algebris has also committed to an extensive Scholarship Programme with Bocconi University in Milan, which will provide support to 60 students over a period of 10 years. The Program awards two scholarships annually for students in the 1st year of a Masters' degree and four partial fee exemptions to students in the Bachelors' programme. In 2019, Bocconi University and Algebris also launched the Algebris Chair in Long-Term Investment and Absolute Return – a five-year education programme that aims at creating a future generation of fund managers focused on long-term investment and conscious of wider societal impact. The first 'Training Camp on Long Term Investment and Absolute Return' was offered in January 2020.

CONTRIBUTING TO GOOD POLICY

In 2018, Algebris created the Algebris Policy & Research Forum (the Forum) – a not-for-profit advisory forum, entirely independent of the commercial operations of the Firm. The Forum produces publicly available research publications and analyses of policy-relevant events, with special attention to European economic policy issues. This content is shared with the public on a dedicated section of our website and through dedicated outreach initiatives and events.