

## SCHEDULE II

**Product name:** **Algebris Sustainable Bond Fund (the “Fund”)**

**Legal entity identifier:** **549300LJBAHRWCAUXS13**

### Sustainable investment objective

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.



#### Does this financial product have a sustainable investment objective?

Yes

No

It will make a minimum of **sustainable investments with an environmental objective: 30%\***

in economic activities that qualify as environmentally sustainable under the EU Taxonomy

in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

It will make a minimum of **sustainable investments with a social objective: 10%\***

It promotes **Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of \_\_\_% of sustainable investments

with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

with a social objective

It promotes E/S characteristics, but **will not make any sustainable investments**

\*In normal market circumstances, the Fund commits to having a minimum commitment of 80% to investment in sustainable investments which is comprised of (i) a minimum of 30% in sustainable investments with an environmental objective (that are not aligned with the EU Taxonomy); (ii) a minimum of 10% in sustainable investments with a social objective; and (iii) the remaining 40% will be allocated between other environmental and/or social sustainable investments but with no fixed allocation as this will depend on the availability of sustainable investments and the fact that some investments contribute to both environmental and social objectives. For the avoidance of doubt, in the event of high market volatility and to the extent permitted under SFDR, the Fund may invest substantially in deposits solely for the purposes of hedging and liquidity as further detailed under the section of the Supplement entitled “Investment Policy”.

## What is the sustainable investment objective of this financial product?

**Sustainability indicators** measure how the sustainable objectives of this financial product are attained.

The Fund has sustainable investment as its objective within the meaning of Article 9 of the SFDR. The sustainable investment objective of the Fund is to make a positive impact on worldwide environmental sustainability and social standards through investing in debt securities of global listed companies which make a positive impact on the world (as measured by a positive contribution to one or more of the UN Sustainable Development Goals (“SDGs”)) while at the same time having a low environmental footprint and operating within the environmental boundaries that support sustainable planetary thriving. In addition to the sustainable investment objective, the Fund aims to generate an attractive level of income and positive risk-adjusted returns in the medium-to-long term.

The Fund has identified a set of themes (“ESG Themes”) and associated sectors that offer sustainable solutions to challenges presented which such information is based on the Manager’s research of legitimate and reputable sources. These are:

- (1) **Theme 1 – Clean Energy and Energy Efficiency:** The Fund aims to contribute to global efforts towards addressing the access to clean energy and cooking fuels by investing in companies that offer products or services that are instrumental to the green energy transitions, including but not limited to: renewables and clean energy solutions; energy efficiency products and services; energy storage solutions. This theme is closely connected to the UN Sustainable Development Goal (“UN-SDG”) or (“SDG”) of Affordable and Clean Energy (“SDG 7”).
- (2) **Theme 2 – Clean Water Tech and Sanitation:** The Fund aims to contribute to global efforts in addressing water scarcity and inadequate sanitation by investing in companies offering products/services that enable more efficient use, consumption, or treatment of water, including but not limited to: water utilities, desalination, water pipes, and infrastructure, smart meters, and water treatment activities. This theme is closely connected to UN-SDG of Affordable and Clean Water and Sanitation (“SDG 6”).
- (3) **Theme 3 – Protection of Biodiversity and Marine Resources:** The Fund aims to contribute to global efforts towards addressing biodiversity loss, ocean acidification, deforestation, air pollution, species extinction and land degradation by investing in companies offering products/services with potential to reduce the threat of biodiversity loss including but not limited to: forest carbon sequestration, clean air, ocean aquaculture activities and environmental engineering. This theme is closely connected to UN-SDG of Life on Land (“SDG 15”) and Life Below Water (“SDG 14”).
- (4) **Theme 4 – Sustainable Agriculture and Food:** The Fund aims to contribute to global efforts towards addressing ‘peak phosphorus’ (the point at which humanity reaches the maximum global production rate of phosphorus as a raw material) by investing in companies that offer products/services with the potential to increase the productivity and reduce the environmental impact of agriculture, including but not limited to: precision and vertical farming, animal health, genetic seed editing, plant-based protein/lab grown meat, sustainable food production. This theme is closely connected to UN-SDG of Zero Hunger (“SDG 2”).

- (5) **Theme 5 – Waste Disposal and Circular Economy:** The Fund aims to contribute to the global efforts to transitioning to a circular economy by investing in companies that contribute to this by offering products/services that contribute to this transition by enabling increased recycling and reducing the environmental impact of waste, including but not limited to: waste management services, recycling services; waste to energy solutions, plastic reduction, paper and packaging; sustainable and/or carbon negative consumer goods. This theme is closely connected to the UN-SDG of Responsible Consumption and Production (“**SDG 12**”).
- (6) **Theme 6 – Health and Wellbeing:** The Fund aims to contribute to global efforts towards addressing inadequate access to medicines, lack of essential health care and the increasing healthcare demands globally due to the aging population in developed countries, as well as pollution deaths, by investing in companies offering products services that can contribute to enhanced efficiency, delivery, and personalization/precision of healthcare services including but not limited to: pharma and biotech; healthcare providers, telemedicine, wellness provides, health digital technologies; digital health; life science; air quality solutions. This theme is closely connected to the UN-SDG of Good Health and Wellbeing (“**SDG 3**”).
- (7) **Theme 7 – Skills and Education:** The Fund aims to contribute to global efforts towards addressing the challenge of a growing education deficit by investing in companies engaging in activities that have the potential to increase availability and affordability of quality education including but not limited to: mobile learning, digital skills app platforms, massive open online courses, corporate training and development, services for vocational education and employment; media services. This theme is closely connected to the UN Sustainable Development Goal of Quality Education (“**SDG 4**”).
- (8) **Theme 8 – Industry, Innovation and Digitalization:** digital technologies and solutions will play a central role in the structural shift of our economy towards a more environmentally and socially sustainable model. The Fund therefore envisages to invest also in firms offering digital solutions and technologies instrumental to the themes described above, including but not limited to: IT hardware and software solutions, industrials; machinery; semiconductor capital equipment (such as semiconductors) and related equipment; electric vehicles and batteries; electrical equipment. This theme is closely connected to the UN Sustainable Development Goals of Industry, Innovation and Infrastructure (“**SDG 9**”) and Sustainable Cities and Communities (“**SDG 11**”).

The Fund’s investment universe is comprised of sectors and companies that will be central to achieving the shift to a more sustainable model of economic activity, by providing solutions to the trade-off between planetary boundaries and minimum social needs.

No reference benchmark has been designated for the purpose of attaining the sustainable investment objective of the Fund.

● ***What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product?***

The sustainable investment objective of the Fund has both a social and an environmental focus, as

the Fund aims to invest in companies that contribute to the UN SDGs while at the same time having a low environmental footprint and operating within the environmental boundaries that support sustainable planetary thriving.

The sustainability indicators used to measure the attainment of the Fund's sustainable investment objective are the following:

### (1) Social Impact

- (i) **Portfolio Level:** Only companies that derive at least 20% of the enterprise value (or sales, EBIT or EBITDA) from activities that contribute positively towards one or more of the SDGs are eligible to be in the Fund's portfolio. At a portfolio level, the sustainability indicator that will be used to measure attainment of this component of the sustainable investment objective is the aggregate alignment to the SDGs related to the eight ESG Themes. This will be measured by calculating the average of the portfolio companies' revenue alignment to each SDG weighted by the amount invested.
- (ii) **Individual ESG Themes:** At the level of each individual ESG Theme, the reference sustainability indicator will be the share of investments in companies deriving at least 20% of their enterprise value (or sales, EBIT, or EBITDA) from activities aligned with each of the SDGs listed in the relevant ESG Theme above.

### (2) Environmental Consciousness

#### (i) Planetary Boundaries

The Manager will scrutinize the environmental impact of the investee companies' operations and products, to verify that these do not overshoot the planetary boundaries framework identified by the Manager (the "**Planetary Framework**").

The Planetary Framework identifies limits for resources used and emissions per unit of economic value creation (the "**Economic Intensities**") that can be used to evaluate a company's operation against five planetary boundaries (climate change; ocean acidification; ozone depletion; nutrients and organic pollutants; and freshwater use) (each a **Boundary** and together the **Boundaries**).

Using environmental data sourced from ESG third party data providers (**Data Providers**) and internal research, the Manager assesses companies' economic intensity against each Boundary's threshold and if a company's economic intensity exceeds one of the Thresholds this will be flagged as "overshooting" the Planetary Boundaries (the "**Overshoot**").

Performance over the five Boundaries is aggregate for each company into a proprietary index, and companies that Overshoot on more than two Boundary thresholds will be considered as 'failing' the Planetary Boundaries screening.

#### (ii) Science Based Emission Reduction Target and other targets

When assessing compliance with the Climate Change Boundary, the Manager also

take into account whether the company has set a science-based emission reduction target (“**SBT**”) and/or other relevant environmental targets.

Companies that are found to Overshoot, but that have set a SBT are considered as *not* overshooting the relevant Boundary(ies).

The reference sustainability indicators that will be used to measure attainment of this component of the sustainable investment objective are:

- (A) the share invested in companies Overshooting respectively 0, 1, 2, or more than 2 Boundaries;
- (B) the share invested in companies with approved SBT and/or with explicit commitments to set a Science Based emission reduction Targets; and
- (C) the share invested in companies with other environmental targets relevant to the Planetary Boundaries framework (e.g. pollution reduction targets, or water usage reduction targets)

A company that fails the Planetary Boundaries screening will not automatically be excluded from the Fund provided the Manager deems there to be potential for remediation through enhanced engagement activities with the company. The Manager in any event will aim to keep the share of ‘failing’ companies in the Fund’s portfolio to a minimum.

### **(3) Broader ESG Best-In-Class Screening**

The Manager will also perform a broader ESG due diligence to establish the degree to which ESG factors are integrated in the prospective investees’ business operations, managerial practices, and organizational developments. For each sector that it invests in, the Fund aims at keeping the average ESG score of companies selected as part of the portfolio above the respective average score of the sectors where the investees operate. Companies exhibiting a global ESG score in the bottom 15% of the relative sector’s ESG scores distribution will be excluded from the investment universe (ESG Best-in-Class).

The reference sustainability indicators that will be used to measure the attainment of this component of the Sustainable investment objective are: (1) the share invested in companies exhibiting ESG scores in the bottom 15% of the respective sector; (2) the average ESG score (and E, S, and G pillar scores) of the portfolio compared to the same metrics for the universe.

In limited and rare occasions, exemptions to the general rules outlined above might be considered in accordance with the Manager’s ESG exemption policy which is included in its ESG exclusion policy.

### **(4) Net Zero AuM**

The Manager is a signatory of the Net Zero Asset Managers Initiative (“**NZAM**”) and has set an initial target of 57% of its total AuM to be managed in line with attaining net zero emissions by 2050 or sooner (the “**Initial Target**”) which will be reviewed at least every five years. The Fund is part of the Manager’s Initial Target and will in accordance with NZAM:

- set an interim decarbonization target for 2030 consistent with a fair share of 50% global reduction in CO2 identified as a requirement in the Intergovernmental Panel on Climate Change (“IPCC”) special report on global warming of 1.5°C. This target will be set using one of the following methodologies: (1) the Paris Aligned Investment Initiative Net Zero Investment Framework; (2) the Science Based Targets Initiative for Financial Institutions; or (3) the Net Zero Asset Owner Alliance Target Setting Protocol.
- Prioritise the achievement of real economy emissions reductions within the sectors and companies in which the Fund invests.

***How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?***

In order to ensure that the sustainable investments that the Fund makes do not cause significant harm to any environmental or social sustainable objective (“DNSH Test”) the Manager assesses each investment against a set of indicators of adverse impacts (the “PAI Assessment”). The PAI Assessment utilises a range of data sources across climate and other environmental related indicators (“Environmental Indicators”) and social related indicators (“Social Indicators”).

***How have the indicators for adverse impacts on sustainability factors been taken into account?***

**(1) Environmental Indicators**

The following Environmental Indicators are measured by the Fund and the actions detailed below are taken in order to ensure that the DNSH Test is satisfied for sustainable investments with an environmental objective.

- ***Indicator and Metric:*** The greenhouse gas (“GHG”) emissions of the investee companies (“PAI 1”): the Manager will measure the total GHG emissions of the investee company using the ‘scope 1, 2 and 3 GHG emissions’ definition prescribed by SFDR and calculated in accordance with the following formula:

$$\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope}(x) \text{ GHG emissions}_i \right)$$

- **The carbon footprint of the investee companies (“PAI 2”):** the Manager will measure the carbon footprint of the investee company, with the carbon footprint being calculated in accordance with the following formula:

$$\frac{\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 GHG emissions}_i \right)}{\text{current value of all investments (€M)}}$$

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

- **The GHG intensity of the investee companies (“PAI 3”):** the Manager will measure the GHG intensity of investee companies with GHG intensity being calculated in accordance with the following formula:

$$\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{current value of all investments (€M)}} \times \frac{\text{investee company's Scope 1, 2 and 3 GHG emissions}_i}{\text{investee company's €M revenue}_i} \right)$$

- **Exposure to companies active in the fossil fuel sector (“PAI 4”):** the Manager will measure the share of investments the Fund makes in companies active in fossil fuel sectors. ‘Fossil fuel sectors’ means sectors of the economy which produce, process, store or use fossil fuel as defined in Article 2(62) of Regulation (EU) 2018/1999 of the European Parliament and of the Council.
- **Share of non-renewable energy consumption and production (“PAI 5”):** the Manager will measure the investee companies’ share of non-renewable energy consumption and non-renewable energy production from non-renewable energy sources compared to renewable energy sources expressed as a percentage.
- **Energy consumption intensity per high impact climate sector (“PAI 6”):** the Manager will measure the investee companies’ energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector. ‘High impact climate sector’ means the sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006 of the European Parliament and of the Council.
- **Activities negatively affecting biodiversity-sensitive areas (“PAI 7”):** the Manager will measure the share of investments by the Fund in investee companies with sites and/or operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas.
- **Emissions to water (“PAI 8”):** the Manager will measure the tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average.
- **Hazardous waste ration (“PAI 9”):** the Manager will measure the tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average.
- **Investments in companies without carbon emission reduction initiatives (“PAI 10”):** the Manager will measure the share of investments in investee companies without carbon emission reduction initiatives aimed at aligned with the Paris Agreement adopted under the UN Framework Convention on Climate Change.

### Social Indicators

The following Social Indicators are used in order to ensure that the sustainable investments that the Fund makes do not cause significant harm to any social sustainable objective:

- **Violations of UN Global Compact (“UNGC”) principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises (“PAI 11”):** The Manager will measure the share of investments the Fund makes in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for multinational enterprises.
- **Lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines for Multinational Enterprises (“PAI 12”):** The Manager will measure the share of investments the Fund makes in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.
- **Unadjusted gender pay gap (“PAI 13”):** the Manager will measure the average unadjusted gender pay gap of investee companies of the Fund.
- **Board gender diversity (“PAI 14”):** the Manager will measure the ratio of female to male board members in investee companies of the Fund.
- **Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) (“PAI 15”):** the Manager will measure the share of investments the Fund makes in investee companies involved in the manufacture or selling of controversial weapons.
- **Lack of anti-corruption and anti-bribery policies (“PAI 16”):** the Manager will measure the share of investments in investee companies that do not have policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption.

If the value of a quantitative Environmental Indicator or Social Indicator is above or below a threshold set by the Manager, or if the conditions set for a qualitative Environmental Indicator or Social Indicator are not fulfilled, this would be considered significant harm for the purpose of PAIs 1 to 16, and would lead the investment being excluded, or, depending on the Environmental Indicator or Social Indicator in question, being put on a watchlist in order to assess whether progress is being made towards compliance and/or engage with the issuer. If, within a timeframe as determined by the Manager, no progress has been made, the Manager will divest, taking due account of the best interests of the Fund and its shareholders.

----- ***How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?***

The Fund ensures that the sustainable investments are in undertakings which have implemented procedures to ensure alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights as assessed by one or more Data Providers.





## Does this financial product consider principal adverse impacts on sustainability factors?



Yes, the Manager considered the PAI of the Fund's investments on sustainability factors: (i) prior to and at the point of investment, by conducting (to the extent possible) due diligence on any proposed investments, with at a minimum the application of ESG exclusion policies; and (ii) on an ongoing basis by monitoring the investments against any applicable mandatory and additional PAI indicators. More information is available in the periodic reporting pursuant to Article 11(2) of the SFDR.



No



## What investment strategy does this financial product follow?

The sustainable investment objective of the Fund is to make a positive impact on worldwide environmental sustainability and social standards through investing in debt securities of global listed companies which make a positive impact on the world (as measured by a positive contribution to one or more of the SDGs while at the same time having a low environmental footprint and operating within the environmental boundaries that support sustainable planetary thriving.

Further information on the sustainable investment objective, investment policy and investment strategy of the Fund including the asset classes in which the Fund may invest is detailed in the Supplement for this Fund and should be read in conjunction with and in the context of this Annex.

To achieve its sustainable investment objective, the Fund considers material ESG factors throughout the investment process from the definition of the relevant investment universe all the way to stock picking and portfolio construction. The Fund's ESG investment framework includes a combination of:

- (i) Strict ESG exclusion Policies;
- (ii) Monitoring of ESG controversies
- (iii) ESG best in class screening on companies' operations and business practices
- (iv) Positive screening for environmental and social impact (SDG alignment and contribution);
- (v) Active ESG engagement and voting.

These principles are integrated, on a best-efforts basis, into the investment controls where possible and reviewed on a regular basis by the Manager. Where any of the requirements are not met, the Manager will determine how best to liquidate the position(s), if appropriate,

or take action to remediate the situation through active engagement with the issuer. The Manager will abstain from investing in similar investments until the identified issue is resolved and the relevant position is no longer considered in breach of the Fund's sustainability criteria detailed above.

The strategy aims to take advantage of mispriced opportunities by constructing a diversified portfolio across sectors addressing the above ESG Themes. The Manager will typically seek to take positions in companies exhibiting one or more of the following characteristics: (i) change in revenue growth prospects; (ii) change in projected operating expenses; (iii) change in balance sheet quality; (iv) speculation regarding a possible sale, disposal or acquisition; (v) change in execution capability and/or strategic direction due to a change in management; (vi) change in capital discipline; (vii) change in regulation; (viii) a change in overall risk appetite; or (ix) a change in valuation methodology.

The construction as well as the positioning of the investment portfolio is determined by the Manager taking into consideration the prevailing market situation as well as regulatory, industry, business and other risks. In order to determine the composition and diversification of the investment portfolio, a bottom-up selection process will be applied. A bottom-up approach involves a fundamental analysis of individual securities, the short and long-term economic prospects of the underlying company, as well as an assessment of the underlying company's intrinsic value.

● ***What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?***

**(1) Positive Screenings**

**a. Social Impact**

The Manager will measure the extent to which the activities of the investee companies of the Fund align and contribute to one or more of the UN-SDGs.

This assessment will investigate what share of the investee company's revenues derive from activities positively contributing to one or more SDGs, while at the same time checking whether the investee company also operates any business lines potentially conflicting with the SDGs. Only companies that derive at least 20% of the enterprise value (or sales, EBIT or EBITDA) from activities that contribute positively towards one or more of the SDGs will be eligible. The Fund will undertake this assessment through the use of SDG revenue alignment data covering approximately 18,000 companies, from an established Data Providers complemented by the Manager's internal research based on public information and dialogue with the relevant company. In case any company deemed of interest is not covered by third party data, an internal assessment will be conducted to establish the degree of revenue alignment with the SDGs, based on public information and dialogue with the relevant company.

**b. Environmental Consciousness**

The Manager will scrutinize the environmental impact of the investee companies'

operations and products, to verify that these are compatible with not overshooting environmental boundaries. This analysis will be underpinned by a collection of the environmental key performance indicators (KPIs) at investee company level. These KPIs will be used to construct an index of environmental performance, which the Manager will use to rate the sustainability of companies' operations.

**c. ESG Best-In-Class**

The Manager will also perform a broader ESG due diligence to establish the degree to which ESG factors are integrated in the prospective investees' business operations, managerial practices, and organizational developments. For each sector that it invests in, the Fund aims at keeping the average ESG score of companies selected as part of the portfolio above the respective average score of the sectors where the investees operate. Companies whose global ESG score falls in the bottom 15% of the relative sector's ESG scores distribution will be excluded from the investment universe.

**(2) Exclusion Policies**

The Fund is subject to the Manager's firm-level exclusion policy detailed below:

*Ethical ESG Exclusions*

- a. **Controversial Weapons:** No investments are allowed in companies that derive any revenues from the manufacturing of controversial weapons; and/or in companies that have a significant ownership in entities excluded under this rule. No investment allowed in debt issued by the top global investors in nuclear weapons and cluster weapons as defined in the Manager's exclusion policies and procedures.
- b. **Predatory Lending:** No investments are allowed in companies that: (i) derive any revenues (0% threshold) from predatory lending activities; and/or (ii) have significant ownership in companies under (i).
- c. **Tobacco:** No investment is allowed in companies that: (i) derive any revenues from the manufacturing of tobacco product; and/or (ii) derive at least 5% of revenues from supply of tobacco-related products or services; and/or (iii) have a significant ownership in companies under (i) or (ii).
- d. **Alcohol:** No investment is allowed in companies that: (i) derive at least 5% of revenues from production of alcoholic beverages and related products or services; and/or (ii) have a significant ownership in companies under (i).
- e. **Gambling:** No investments allowed in companies that: (i) derive at least 5% of revenues from gambling operations, gambling specialized equipment and supporting products or services; and /or (ii) have a significant ownership in companies under (i).

- f. **Military Contracting:** No investments allowed in companies that: (i) derive at least 5% of revenues from military contracting; and /or (ii) have a significant ownership in companies under (i).
- g. **Small Arms:** No investments allowed in companies that: (i) derive at least 5% of revenues from production of small arms; and/or (ii) at least 10% revenues from retail and distribution of small arms; and/or (iii) have a significant ownership in companies under (i) or (ii).

#### Climate ESG Exclusions

- h. **Thermal Coal:** No investments allowed in companies that: (i) derive any revenues (0% threshold) from the extraction of thermal coal, and/or (ii) derive any revenues (0% threshold) from thermal coal power generation; and/or (iii) have a significant ownership in companies under (i) or (ii). In addition, the Fund will not knowingly invest in debt or equity issued by the top-5 equity and bondholders in coal power plant developers, nor in the banks providing the largest share of lending to coal mining. Further, the Fund will not invest in 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.
- i. **Unconventional Oil and Gas:** No investments in companies: (i) deriving any (0% threshold) revenues from exploration/extraction of either Tar Sands or Arctic Oil; and (ii) any company having a significant ownership in the companies excluded under (i).
- j. **Conventional Oil and Gas:** No investments in companies that: (i) derive any (0% threshold) revenues from the production of conventional oil and gas; and/or (ii) companies that derive more than 40% of revenues from conventional oil and gas power generation.

#### Normative ESG Exclusion

- k. **UNGC:** The Fund is subject to a screening that evaluates the alignment of investee companies with the 10 Principals of the UNGC. The Manager's ESG research team carries out a UNGC screening underpinned by data from Data Providers, as well as internal research. The aim of the Manager's UNGC screening is to minimize exposure to companies with especially poor practices in key UNGC-relevant areas and identify potential issues on which to engage with companies in the portfolio.

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

Although the Fund does not intend to invest directly in ordinary equity securities; these may be acquired and held by the Fund in the event of a conversion (as further detailed in the section of the Supplement entitled “Investment Policy”). For the avoidance of any doubt, an ordinary equity acquired and held by the Fund as result of such a conversion will be subject to the same ESG framework and binding elements that are detailed in the Supplement including this Schedule II.

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.



### (3) Engagement and Voting

The Manager encourages good governance and sustainable corporate practices, which contribute to long-term value creation. The Manager’s Proxy Voting Policy and Shareholder Engagement Policy set the principals to be applied for determining when and how any voting rights held in respect of investments are exercised.

The Manager is a supporter of the Say on Climate Initiative – Shareholder Voting on Climate Transition Action Plans (a shareholder voting initiative to encourage companies to publish annual disclosures of emissions and to adopt a plan to manage these emissions) (“**Say on Climate**”). Where companies will not do so voluntarily, the Manager has formally stated in its voting policy that it will vote for and/or file annual general meeting (AGM) resolutions (whenever it has voting rights, and sufficient votes) requiring such a vote that furthers the aims of Say on Climate.

#### ● ***What is the policy to assess good governance practices of the investee companies?***

The Manager assesses the governance practices of investee companies through a variety of scores covering various aspects of firm-level governance, sourced Data Providers in order to satisfy itself that the relevant investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance. The investment team of the Manager may also engage with investee companies about specific governance-related issues. The dedicated AI/ Data team of the Algebris group has also developed a proprietary artificial intelligence (AI)driven controversy monitoring tool to monitor the increase of potential ESG-related controversies relating to investee companies.

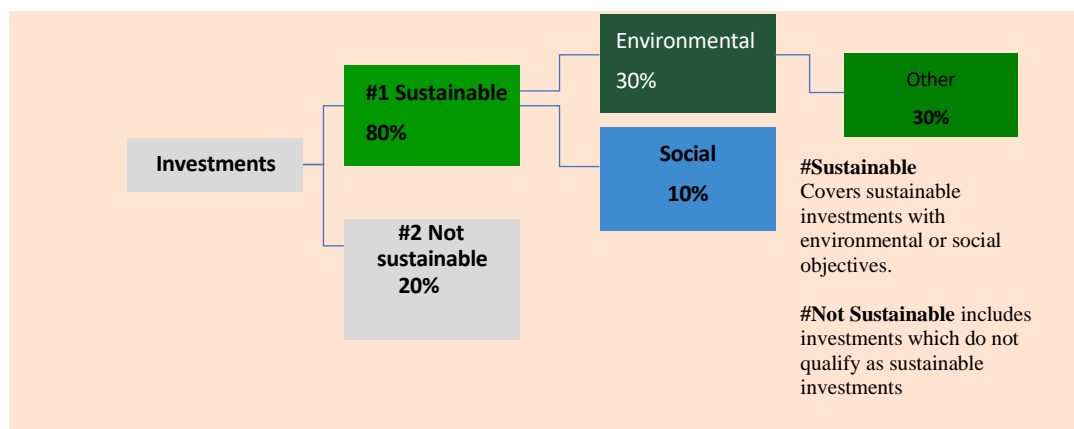
To satisfy itself that the relevant investee companies follow good governance practices (in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance) the Manager monitors a number of governance related key performance indicators (KPIs) for the investee companies. These include:

- **Sound Management Structures:** an aggregate performance index reflecting anti-crime policies and processes; business ethics; and corporate governance structure and effectiveness.
- **Employee Relations:** an aggregate performance index reflecting occupational health and safety; human capital development; and talent retention.
- **Remuneration of Staff:** an aggregate performance index reflecting gender pay gap; and CEO to employee pay ratio.

- **Tax Compliance:** an aggregate performance index reflecting tax strategy and governance; effective tax rate; and tax reporting.

Data for assessing the elements above is sourced from Data Providers and internal research. The investment team of the Manager may also engage with investee companies about specific governance-related issues – such as news items and/or the emergence of governance-related controversies.

### What is the asset allocation and the minimum share of sustainable investments?



The Manager commits to invest a minimum proportion of 80% of the Fund's investments in sustainable investments in order to meet its sustainable investment objective.

This is comprised of (i) a minimum of 30% in sustainable investments with an environmental objective (that are not aligned with the EU Taxonomy); (ii) a minimum of 10% in sustainable investments with a social objective; and (iii) the remaining 40% will be allocated between other environmental and/or social sustainable investments but with no fixed allocation as this will depend on the availability of sustainable investments and the fact that some investments contribute to both environmental and social objectives.

The remaining 20% of investments will be in investments which are used for the purpose of hedging and cash held as ancillary liquidity. Further details on the purpose of such investments are set out below.

**Asset allocation** describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

● **How does the use of derivatives attain the sustainable investment objective?**

Whilst the Fund may use derivatives as part of its investment strategy as further detailed in the Supplement for the Fund, the use of derivatives is not conducted with a view to attaining the environmental or social objectives of the Fund.



**To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

While the Fund has sustainable investment as its objective, as at the date of this document, it is expected that the minimum proportion of investments of the Fund in environmentally sustainable economic activities aligned with the “EU Taxonomy” (being Regulation (EU) 2020/852 of the European Parliament and the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investments) (including in transitional and enabling activities) shall be 0% of the investments of the Fund.

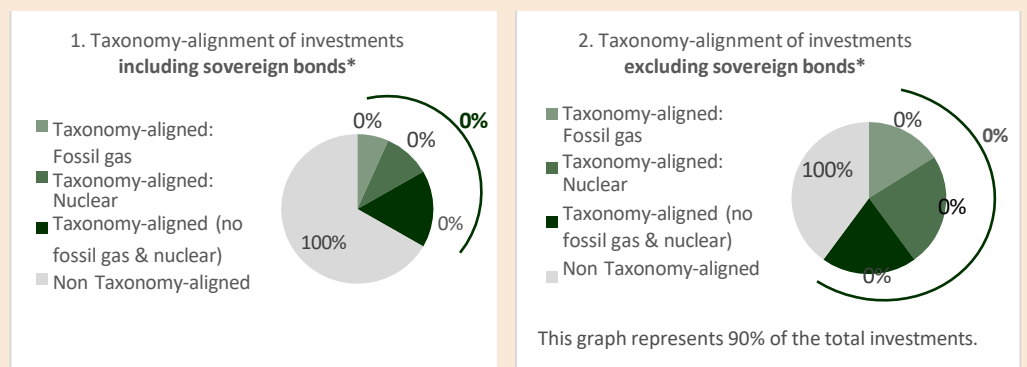
● **Does the financial product invest in fossil gas and / or nuclear energy related activities that comply with the EU Taxonomy?**

**Yes:**

In fossil gas                       In nuclear energy

**No**

**The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.**



\* For the purpose of these graphs, ‘sovereign bonds’ consist of all sovereign exposures.

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to fully renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

● **What is the minimum share of investments in transitional and enabling activities?**

0%. There is no commitment to a minimum proportion of investments in transitional and enabling activities.



**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

While the sum of sustainable investments with an environmental objective invested and sustainable investments with a social objective invested will add up to the Fund's minimum share of 80% sustainable investments, the minimum share of the Fund's investments in sustainable investments with an environmental objective that are not aligned with the EU Taxonomy will be 30% noting that: (i) 10% will be allocated to sustainable investments with a social objective; and (ii) the remaining 40% will be allocated between other environmental and/or social sustainable investments but with no fixed allocation as this will depend on the availability of sustainable investments and the fact that some investments contribute to both environmental and social objectives.

The Fund invests in sustainable investments with an environmental objective that are not aligned with the EU Taxonomy because the Manager currently does not use the EU Taxonomy classification system in determining whether economic activities contribute to an environmental objective or not.



**What is the minimum share of sustainable investments with a social objective?**


While the sum of sustainable investments with an environmental objective invested and sustainable investments with a social objective invested will add up to the Fund's minimum share of 80% sustainable investments, the minimum share of the Fund's investments in sustainable investments with a social objective will be 10% noting that: (i) 30% will be allocated to sustainable investments with an environmental objective; and (ii) the remaining 40% will be allocated between other environmental and/or social sustainable investments but with no fixed allocation as this will depend on the availability of sustainable investments and the fact that some investments contribute to both environmental and social objectives.



**What investments are included under “#2 Not sustainable”, what is their purpose and are there any minimum environmental or social safeguards?**

The “#Other” investments made by the Fund include instruments which are used for the purpose of hedging (including currency risk management), and liquidity. These investments include, but are not limited to ancillary liquid assets, financial derivative instruments and cash and cash equivalents.

Whilst these investments may not be aligned with the sustainable investment objective of the Fund, they will, to the extent possible, still be subject to the

 are environmentally sustainable investments that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.



exclusion policies detailed above, in addition to the UNGC Screening. These provide minimum safeguards.

In respect of cash and cash equivalents held from time to time on an ancillary basis, as well as instruments for hedging purposes. No minimum environmental or social safeguards are applied in respect of these.



### **Is a specific index designated as a reference benchmark to meet the sustainable investment objective?**

No specific index has been designated for the purpose of attaining the sustainable investment objective of the Fund.

- ***How does the reference benchmark take into account sustainability factors in a way that is continuously aligned with the sustainable investment objective?***

N/A

- ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***

N/A

- ***How does the designated index differ from a relevant broad market index?***

N/A

- ***Where can the methodology used for the calculation of the designated index be found?***

N/A



### **Where can I find more product specific information online?**

More product-specific information can be found on the website:

<https://algebris.com/fund/algebris-sustainable-bond-fund/>

**Reference benchmarks** are indexes to measure whether the financial product attains the sustainable investment objective.