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# Sustainability Report

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# Letter from Management

Identifying sustainability risks and opportunities is more important now than ever. As a credit manager, which integrates relevant environmental, social and governance factors, we can help supply great companies with the capital needed to address and solve some of the most pressing challenges, such as climate change.

We are pleased to present this Sustainability Report and show how we at Capital Four work to integrate environmental, social and governance factors in our investment decision-making, and in the ongoing dialogue with the companies we provide capital. We also want to give an inside look into the ESG profile of Capital Four as a company.

Capital Four is a signatory to UN-sponsored Principles of Responsible Investing (PRI), UN Global Compact and the Task Force on Climate-Related Financial Disclosures (TCFD), and we are committed to responsible investing. We aim to deliver competitive, risk-adjusted financial returns to our clients over the long-term, based on an investment approach that reflects the significance we attach to operating within the boundaries we deem acceptable for sustainability risks and impacts.

The nature of credit investing is to provide companies with capital to develop their business, receive the agreed interest on a bond or loan, and to avoid losses. For us as credit investors, it is essential to gain a detailed understanding of the individual company to assess the credit risks and opportunities of the business before investing our clients' capital.

Capital Four's approach to investment is that fundamental research and a well-designed process leads to superior long-term performance. Our approach to sustainability is the same. We believe one of the key factors for the long-term success of Capital Four relies on our ability to successfully assess sustainability risks as part of our investment process.

During the past years, we have taken a number of steps to develop and strengthen this part of our investment process, as described in this report. We will continue to take decisive steps in this direction also in the future.

A key focus for the coming years is to enhance our access to data input in our sustainability assessment and impact measuring, in particular, with a focus on climate related issues. As part of these efforts, we will further develop our dialogue with investee companies and encourage increased transparency and disclosures.

The team at Capital Four has made great efforts to advance the sustainability agenda during the past years. This has been done while Covid-19 significantly impacted both the market and the daily working environment. We would like to express our deep gratitude to our clients for their trust and to the team at Capital Four for a tremendous effort in difficult times.



**Sandro Näf**  
CEO, Portfolio  
Manager &  
Co-founder



**Torben Skødeberg**  
Portfolio Manager &  
Co-founder



## About Capital Four

- > An **industry-leading** credit asset manager for some of the largest international pension funds and institutional investors.

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- > Manages **15+ bn EUR** on behalf of clients.

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- > Founded in **2007** in Copenhagen by a small, specialized team of experienced credit investors.

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- > The founding partners of Capital Four have been working together for almost **20 years**.

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- > Owned by majority shareholder **Northill Capital**, the founders and employees of Capital Four.

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- > Grown to **112 employees** representing **13 nationalities**.

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- > Capital Four has offices in **Copenhagen, New York, Frankfurt am Main** and **Stockholm**.

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- > A **UN PRI, UN Global Compact** and **TCFD** signatory.

# Responsible Investing

Capital Four’s approach to responsible investing is outlined in our **Responsible Investment Policy**. The policy covers 100% of Capital Four’s assets under management.

## Vision



Capital Four focuses on investments that contribute to long-term financial value creation while avoiding investments that we believe have a negative effect on society. From an investment perspective, we believe responsible investing is relevant for our investors and the longevity of the market, as it may create excess financial returns and reduce long-term sustainability risks.

## Processes and Guidelines



Our investment process is driven by bottom-up fundamental research analysis and full integration of sustainability risk and opportunities. Our ESG process uses our ESG scoring model as a foundation and includes product and conduct screening, client guideline compliance as well as the inclusion of Principal Adverse Impacts. Our Credit Analysts anchor the ESG process along with our Portfolio Managers.

## Investment Universe



Responsible conduct behavior is anchored within Capital Four’s investment universe, and we apply minimum standards requirement for all investments. These standards are based on UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, and the UN Global Compact’s ten principles. If companies are violating these and do not take the necessary actions to remedy any known violation, we will deem these companies outside our investable universe.

Capital Four will not invest in companies which are involved in the production of controversial weapons, are producers of tobacco or that generate more than a minimal part of their revenue from coal mining, coal-based energy production, Arctic drilling or involvement in oil sands extraction. Additional limitations to our investment universe stem from screening against the EU, UN and OFAC sanction list.

Our internal ESG scoring, which is described later in this report, further assigns a minimum threshold to our investable universe.

## Commitment to Global Principles and Standards



Capital Four is a signatory to the UN Global Compact, PRI and TCFD. We intend to become signatory to the Net Zero Asset Managers Initiative in 2022.

## ESG in Investment Decisions



The portfolio managers at Capital Four decide and are responsible for the investments we make. Our investment decision-making process, which covers investment and divestment, involves several stages of information gathering, research analyses and assessments. Two of the factors the portfolio managers assess before making an investment decision are our ESG score of a company and available information on Principal Adverse Impacts.

## Engagement



Capital Four believes that ESG engagement creates value for our investors, the companies we invest in and, indirectly, society at large. Capital Four is committed to actively engage with the companies we invest in to improve their public non-financial disclosure and sustainability awareness. We also enter into a dialogue around setting explicit reward-linked sustainable performance targets directly linked to funding costs of the companies to increase incentives.

Capital Four is an active participant in a number of industry forums, such as the European Leveraged Finance Association (ELFA) and the ESG Integration Network of the CFA Society Denmark that focuses on various aspects of sustainability issues related to investments. Capital Four encourages an open dialogue with investors and typically holds quarterly or annual reviews specifically focused on ESG related issues in the portfolio, as well as internal developments and progress.

## Training & Education



The continuing education of our employees is fundamental to the progress of Capital Four. We continuously participate in multiple responsible investing-related courses, conferences and webinars. In addition, we conduct internal ESG training for all Capital Four analysts continuously, and all new hires at Capital Four are given an introduction to responsible investing and sustainability.

## ESG Committee

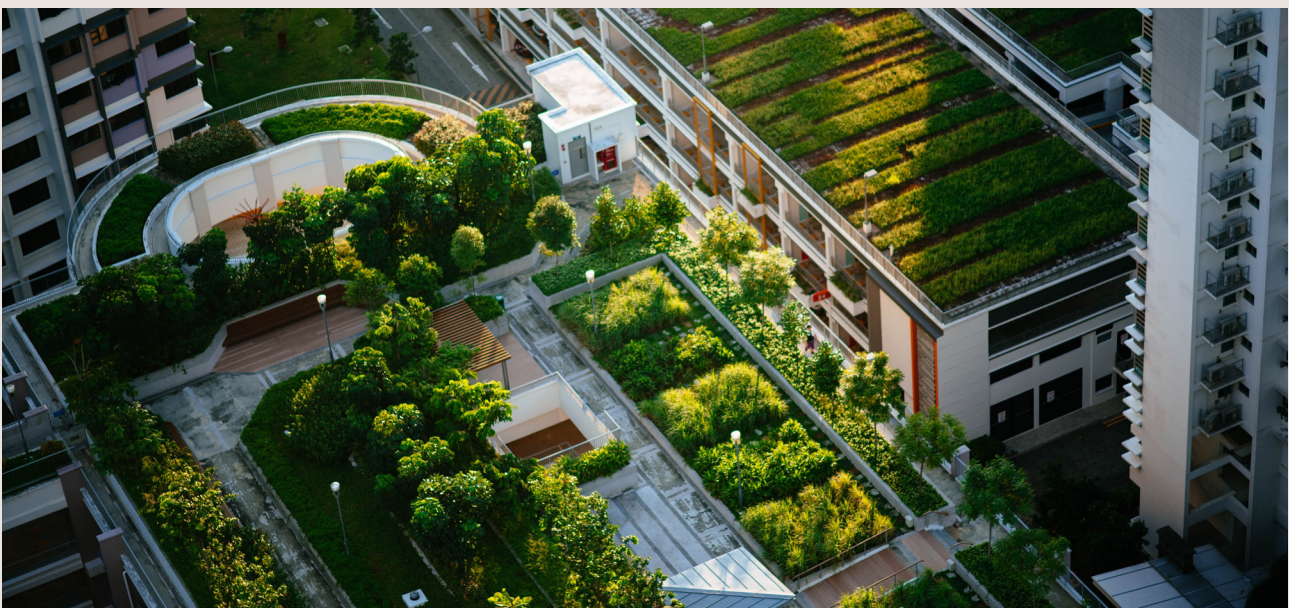


Capital Four has an ESG Committee comprising professionals from across the organisation. The purpose of the ESG Committee is to ensure Capital Four stays at the forefront of responsible investment practices and developments.

## Governance

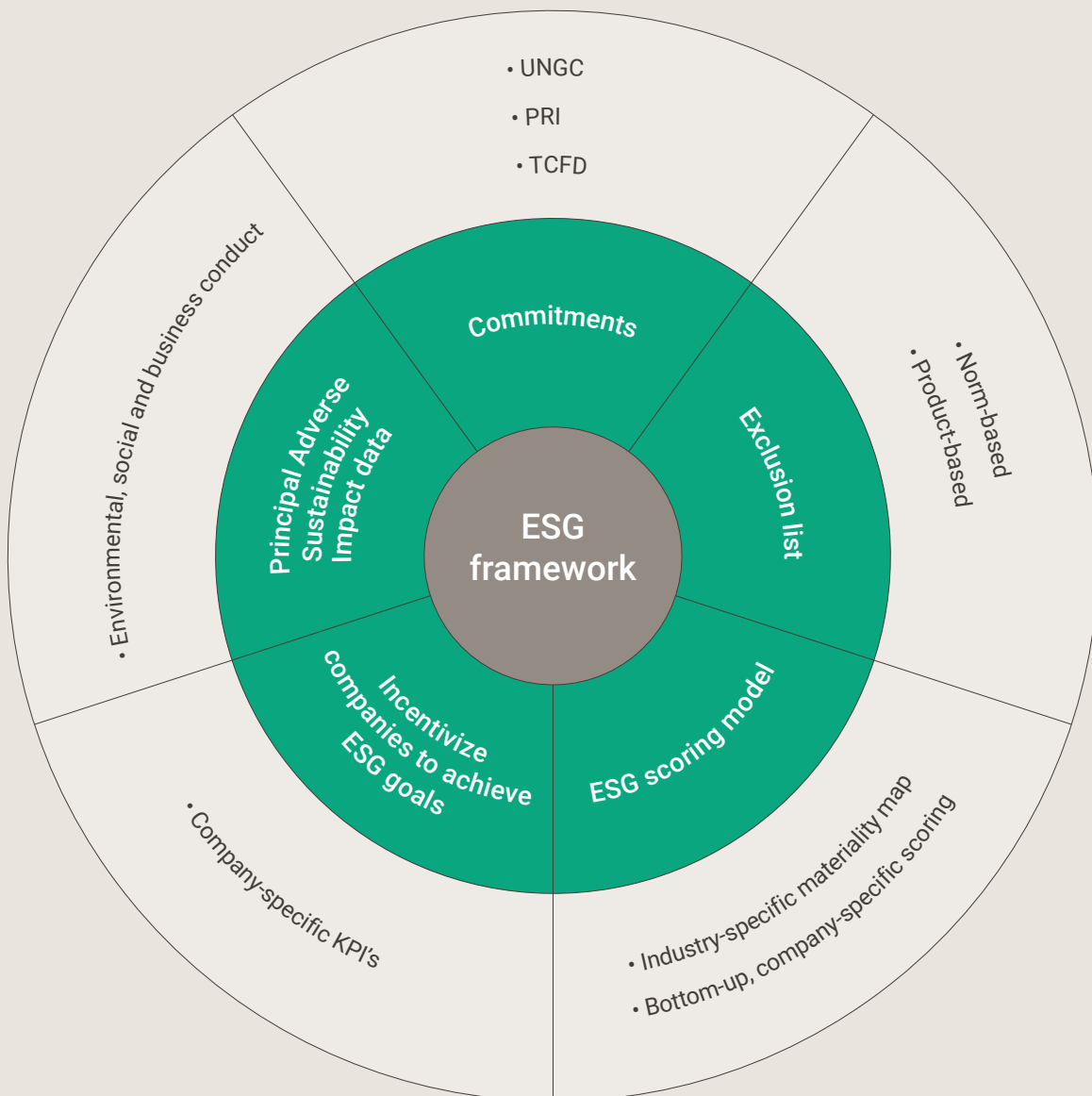


Capital Four's ESG governance framework is structured as follows. The CEO, who reports to the Board of Directors of Capital Four, has to ensure Capital Four has a Responsible Investment Policy in place. The Investment Committee is responsible for implementing Capital Four's ESG policies, including the Responsible Investment Policy throughout the investment process. The COO shall ensure the implementation of all ESG restrictions on funds and mandates, and the Compliance Officer monitors compliance with the ESG governance framework. All employees at Capital Four are responsible for carrying out the firm's ESG objectives and upholding the firm's policies and procedures.



# ESG Framework

Capital Four’s ESG framework is built around the following elements that we consider most material in our approach to ensure responsible and sustainable investment practices. The objective is to take into account environmental, social and governance factors in a data-driven, structured and repeatable manner.



# Sustainability Highlights

During the past years, Capital Four has taken a number of steps to further integrate the assessment of sustainability risk and opportunities as a key element in our investment framework and business operations. Some of the most important steps are:

## ESG Scoring



During 2020 and 2021, Capital Four has developed a proprietary ESG scoring framework and performed ESG analysis and scoring of all investments across all portfolios.

250 companies scored using Capital Four ESG scoring model (100% of AUM)

## ESG Education



All analysts at Capital Four have completed a comprehensive course on ESG integration in investments. The course was conducted by an external specialist provider in collaboration with Capital Four.

More than 500 employee training hours spent in 2021

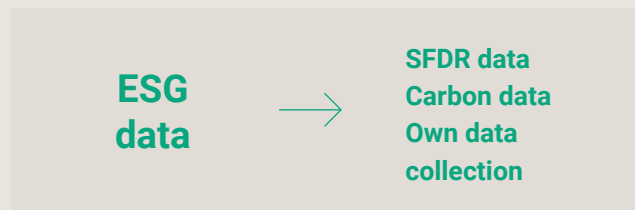
In a recent webinar for investors, we went into detail as to sustainability-linked credit and how it affects asset pricing. In addition, we outlined our perspective and methodology on how to achieve a sufficient data set to track and analyze ESG developments in a market with limited public information. In a recent podcast, we compared and contrasted ESG developments and status across both the European and US markets, including commenting on differences within the high yield and senior loan markets.

## ESG Data



In 2020, we have entered into an agreement with Sustainalytics to provide ESG screening and ratings on the investment portfolio, and we have become members of Sustainability Accounting Standards Boards (SASB). The SASB Materiality Map is integrated into Capital Four's ESG scoring model.

In 2021, we have entered into agreements with MSCI and S&P to provide ESG data, specifically in relation to SFDR and the EU Taxonomy, on the investment portfolio.



## Collaboration and Initiatives



Capital Four is a member of the European Leveraged Finance Association (ELFA), where we participate actively in the ESG Committee and various sub-committees with an ESG focus. The ELFA ESG Committee works to improve disclosure on ESG topics in the leveraged finance market, and to develop best-practice guidance for ESG disclosures for sub-investment grade borrowers.

Capital Four is a member of Finansforeningen (CFA Society Denmark), where we participate actively in the ESG Integration Network.

In addition, Capital Four participates in a number of other networks and working groups.



## SFDR Disclosure



During the latter part of 2020 and 2021, Capital Four has prepared sustainability disclosures as required under the Sustainable Finance Disclosure Regulation (SFDR). See our [Sustainability Related Disclosures](#).

## CLO Issuance



In 2021, Capital Four has issued a CLO with mandatory ESG reporting.



# Investment Case: Pfeiderer

## About Pfeiderer

PCF GmbH (“Pfeiderer”) is a Germany-based leading manufacturer of premium engineered wood products, laminates and resins. The company produces premium wood and laminate products for fast-growing, high-end applications in the Western European kitchen, furniture and construction markets. Pfeiderer is also a leading producer of specialty and industrial resins through its Silekol division, which are used in Pfeiderer’s own products and by external customers in the panel production, packaging, construction and building materials industries.

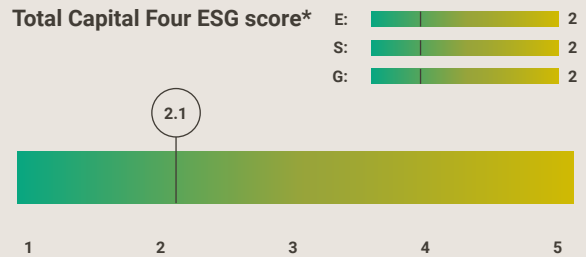
## Case

Following a clear circular economy approach, the majority of Pfeiderer’s sourced wood for their products is coming from 85% recycled wood, both from pre-consumer (mainly sawmill residues, e.g., sawdust) and post-consumer (used wood, e.g., from old kitchens and furniture, dismantled and processed in accordance with the Waste Wood Ordinance). The remaining 15% of so-called “fresh” wood consist of thinning wood and other forestry residues, sourced locally from FSC- or PEFC-certified forests. The company has been investing actively into the increased use of recycled materials in their production.

With their new sustainability-linked bonds, the company is committing to increase post-consumer recycled material to 44% of all wood raw material necessary for production by the end of 2022, and 50% by 2025 (from 40% in 2020).

The company is also committing to reducing Scope 1 & 2 GHG emissions from 220.2 kT CO2e in 2020 to 201.7 kT CO2e in 2022 and 173.9 kT by 2025.

Capital Four has been invested in Pfeiderer since 2013, and has, since early 2021, actively engaged with Pfeiderer on sustainability measures. Pfeiderer issued sustainability-linked bonds in April 2021, following an enhanced sustainability assessment by a Second-Party Opinion provider released together with the bonds issuance. Capital Four has used its ESG scoring framework to assess Pfeiderer and, during the new issuance due diligence process, whether the sustainability targets included in the bonds are ambitious enough.



“Sustainability has always been at the heart of Pfeiderer’s business. Commitment to sustainable construction and to reduce the carbon footprint is clearly demonstrated through our ambitious ESG targets”.

Dr. Mani Herold,  
CFO at Pfeiderer

\* See section ESG in the Investment Process for a description of our ESG scoring.



“Capital Four believes that ESG engagement creates value for our investors, the companies we invest in and, indirectly, society at large.”

Sandro Näf,  
CEO and CO-founder at Capital Four

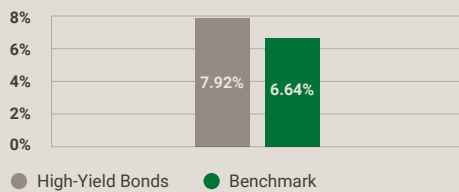
# Investment Strategies

Capital Four manages five strategies. Below is a description of the strategies and the weighted ESG scores for each strategy.

## High-Yield Bonds

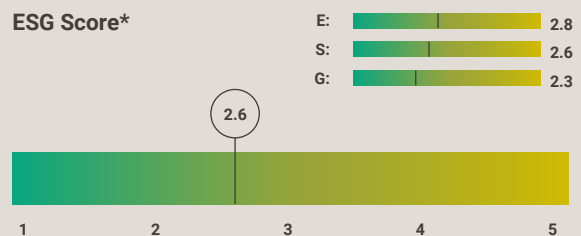
- Inception: 2001
- Assets managed: 7.4bn EUR
- Assets: Focus on High-Yield bonds issues by Corporates and Financials
- Geography: Global and European strategies
- ESG scored assets: 100%

### Track record since inception\*



\* Annualized return. Data as of 30 June 2021

### ESG Score\*

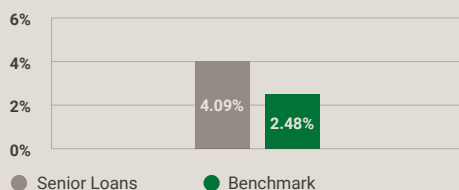


\* See section ESG in the Investment Process for a description of our ESG scoring.

## Senior Loans

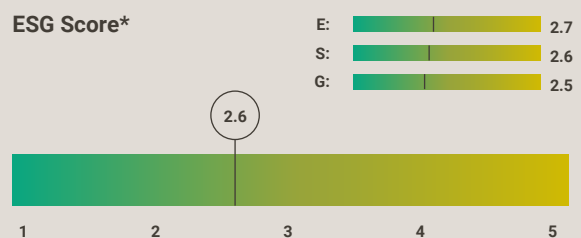
- Inception: 2013
- Assets managed: 4bn EUR
- Assets: Focus on Senior Secured Loans, Senior Secured Bonds and Floating Rate Notes
- Geography: Global and European strategies
- ESG scored assets: 100%

### Track record since inception\*



\* Annualized return. Data as of 30 June 2021

### ESG Score\*

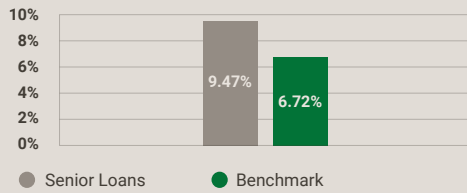


\* See section ESG in the Investment Process for a description of our ESG scoring.

## Private Debt

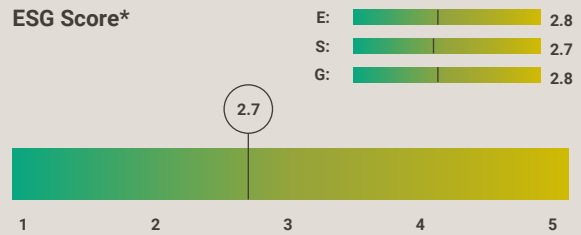
- Inception: 2015
- Assets managed: 2bn EUR
- Assets: Focus on lower middle-market corporates (EBITDA around 10-20m EUR)
- Geography: Nordics and Northern Europe
- ESG scored assets: 100%

### Track record since inception\*



\* Annualized return. Data as of 30 June 2021

### ESG Score\*

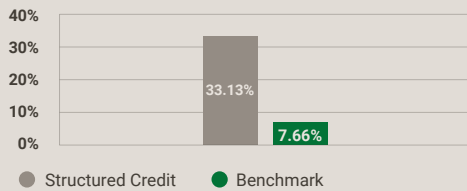


\* See section ESG in the Investment Process for a description of our ESG scoring.

## Structured Credit

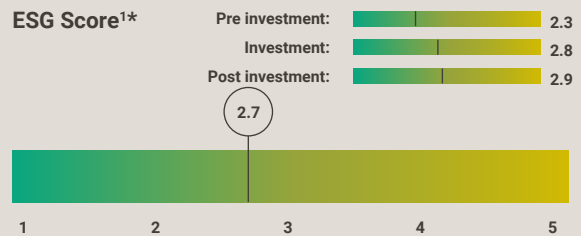
- Inception: 2020
- Assets managed: 0.2bn EUR
- Assets: Defensive (High-grade) and Opportunistic (Equity & mezzanine) strategies
- Geography: Europe
- ESG scored assets: 100%

### Track record since inception\*



\* Annualized return. Data as of 30 June 2021

### ESG Score<sup>1</sup>\*

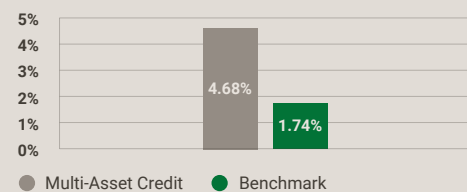


\* See section ESG in the Investment Process for a description of our ESG scoring.

## Multi-Asset Credit

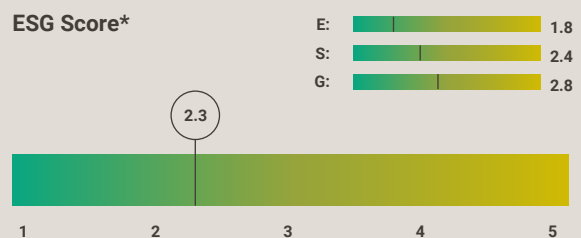
- Inception: 2010
- Assets managed: 1.6bn EUR
- Assets: Focus on relative value in addition to bottom-up security selection
- Geography: Global
- ESG scored assets: 100%

### Track record since inception\*



\* Annualized return. Data as of 30 June 2021

### ESG Score\*



\* See section ESG in the Investment Process for a description of our ESG scoring.

<sup>1</sup> For Structured Credit, Capital Four's ESG score is a manager-level score based on a CLO manager's performance on material ESG-related issues relative to peers. The score is computed based on nine ESG topics and reflects a manager's approach to integrating the consideration of ESG risks and value creation opportunities into the investment process. The topics are divided into three parts: ESG integration in the pre-investment phase of the CLO manager, ESG integration in the specific investment phase of the product, and how ESG is integrated by the manager post-investment. The total score is an aggregate of each of the underlying scores.

## Working with Carbon Data

Carbon footprint has become an important factor in credit analysis. Climate-related risk can impact the performance of companies, and measuring portfolio footprints improves the understanding of climate change risk and opportunities, in addition to identifying priority areas. Greenhouse gas (GHG) emissions for individual companies can be used to measure the carbon footprint of an entire investment portfolio. A company's Carbon Intensity (CI), measured as emissions per revenue, combined with portfolio weights, gives us the Weighted Average Carbon Intensity (WACI), a measure of portfolio exposure to carbon intensive companies.

At Capital Four, we are in the process of integrating carbon data, such as CI and WACI, into our investment strategy. A key element of this work is to increase our data coverage of companies' emission data.

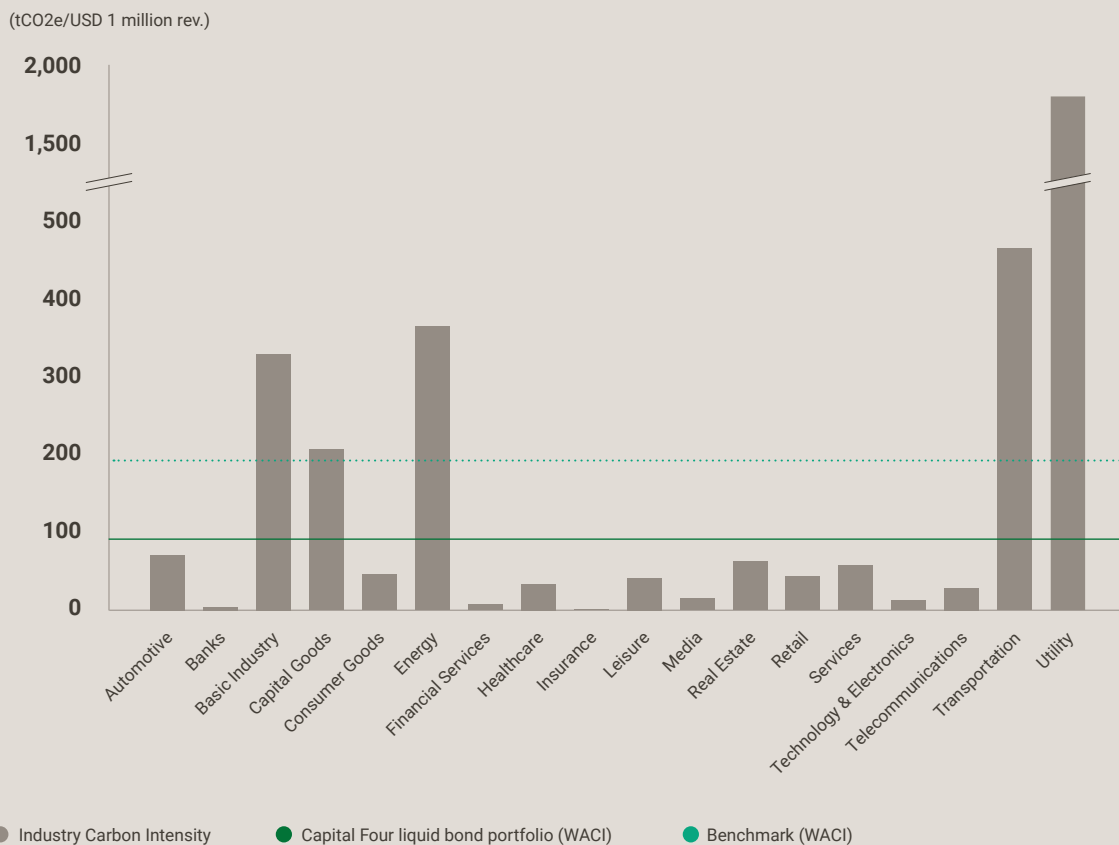
When working with carbon data, we use a tiered approach. First, we collect reported data on scope 1, 2 and 3 emissions for a company, in our proprietary research management systems, and then we use external data providers for further

data points and estimations. For a liquid bond portfolio, this will currently cover around 65% of the portfolio. Where no data is available, we rely on industry averages on carbon intensity.

In the example illustrated in Figure 1, we have analyzed the carbon footprint of a representative liquid bond portfolio managed by Capital Four. It shows that the WACI of the portfolio is 53% below the WACI of the benchmark, and points to the opportunities of working with reduction targets for carbon-intensive industries, such as Basic Industry, Transportation, Utility.

At Capital Four we acknowledge that there are several challenges associated with integrating carbon data as an active part of asset management, especially for private companies with little data coverage. We are fully focused on increasing data coverage through collaborative and our own efforts, and we also believe current developments in markets and regulation will significantly help increase data availability over the next few years. The analysis of companies' and portfolios' carbon footprint is also linked to Capital Four's work on TCFD reporting.

**Figure 1: Weighted Average Carbon Intensity for Capital Four liquid bond portfolio**



Available data as of October 2021

# Investment Case: Contour

## About Contour

Founded in 1995, Contour is a leading provider of premium ergonomic mouse and keyboard solutions. Products are designed to reduce workplace-related injuries caused by harmful or high-repetition movements. Contour aims to ensure employee well-being, an area of increasing relevance for both employers and employees globally.

## Case

In May 2021, Polaris, a leading Nordic private equity company, acquired the majority shareholding of Contour from its founder. Capital Four provided the financing to support the acquisition.

Based on Contour’s solid foundation in the Nordic market, Polaris will support the company on its journey of international geographic expansion, and assist in the development of the company’s product offerings.

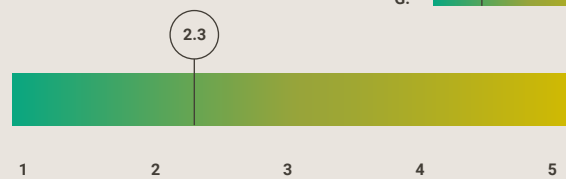
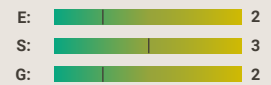
Together with Polaris, Contour is working on signing up to UN Global Compact and implementing Polaris’ sustainability program that includes three main focus areas: CO2 emissions, gender diversity and employee retention. These key performance indicators (KPIs) are well-aligned with Capital Four’s underlying approach to sustainability and our ESG scoring framework.

Polaris’ and Contour’s management teams are also working with external sustainability consultants to establish the overall sustainability strategy for Contour. Based on this, Polaris and Capital Four will identify three Contour-specific, ambitious and quantifiable sustainability KPIs that would take Contour a step further on its sustainability journey.

Capital Four has agreed with Polaris on the intention of implementing a sustainability-related margin ratchet for our direct lending loan supporting the financing. The margin on the loan will be reduced or increased based on the achievement of the agreed sustainability targets. Performance against the target will be measured yearly and disclosed to the lender.



Total Capital Four ESG score\*



“Contour Design has worked with areas of sustainability for several years, although not in a strategic and structured way. Environmental concerns are high on everyone’s agenda, but we do not forget our business responsibilities on human rights and anti-corruption.”

Kenneth Schach,  
Managing Director / Adm. Direktør

\* See section ESG in the Investment Process for a description of our ESG scoring.

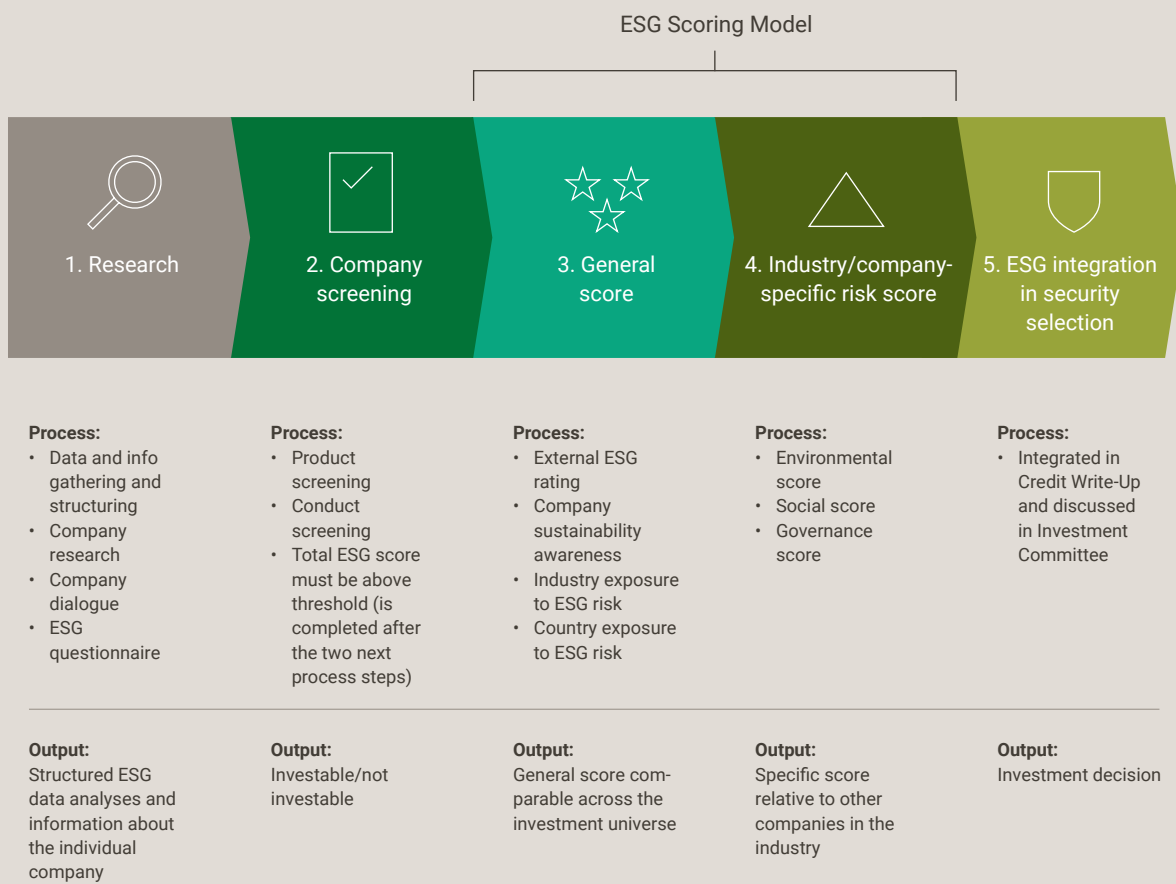
# ESG in the Investment Process

Capital Four’s investment process is driven by bottom-up fundamental research analysis that includes assessment of material environmental, social and governance factors for the specific industry and company in question.

We have developed a proprietary ESG scoring framework, which is implemented across all investment portfolios, to

identify and analyze sustainability risks and opportunities. The framework combines our own analytical models, research and knowledge with inspiration from different sources, most notably SASB’s Materiality Map, as well as input from different ESG data-providers. The framework is aligned with the disclosure and reporting requirements set out in the Sustainable Finance Disclosure Regulation (SFDR).

Figure 2: ESG Scoring Process





## 1. Research

Capital Four has, during the past two decades of focused credit investing, built an extensive knowledge of general industry themes and issuer-specific topics, as well as strong processes for knowledge-gathering and efficient information storage.

We place great emphasis on continuing to develop our in-house analytical capabilities in terms of talent, data and information sources and processes. Improving our access to quality ESG data is a high priority, and we rely on internally gathered information, ESG due diligence questionnaires, external vendors and estimations to build our ESG data analytics.

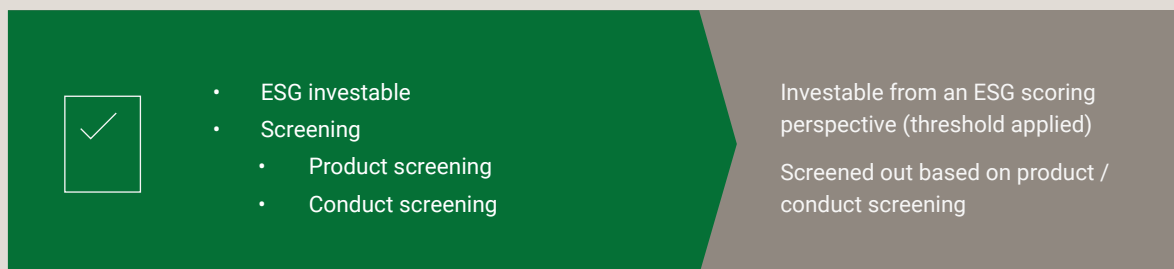
## 2. Company Screening

Capital Four’s company screening includes:

- Product screening based on revenue from sensitive product lines. This can lead to exclusion depending on fund/mandate exclusion criteria. Across all funds/mandates, Capital Four will not invest in companies which are involved in the production of controversial weapons, are producers of tobacco or that generate more than a minimal part of their revenue from coal mining, coal-based energy production, Arctic drilling or involvement in oil sands extraction.
- Screening of all names against EU, UN and OFAC sanction lists. We also screen all names for violations of UN Global Compact and related conventions. Capital Four will assess violators flagged by external screening, and will exclude a company if we do not find they take reasonable action to address the issue. The result of the Product and Conduct screening is aggregated in the Screening assessment that can be either Red (not investable) or Green (investable).

For a company to be considered ESG investable by Capital Four, it must obtain an ESG score within the threshold of Capital Four’s ESG scoring framework. A company is deemed non-investable if 1) the total score is  $\geq 4.0$ ; or 2) the total score is  $\geq 3.75$  and the company scores 5 in E, S or G. We have applied the framework on our investments and not on the full investable universe; however, we estimate that our minimum ESG score threshold in conjunction with our top down screening would eliminate around 3-5% of the investable universe. This is in line with our general approach to responsible investment, where we do find value in transitional companies.

Figure 3: ESG Scoring Framework - Company screening

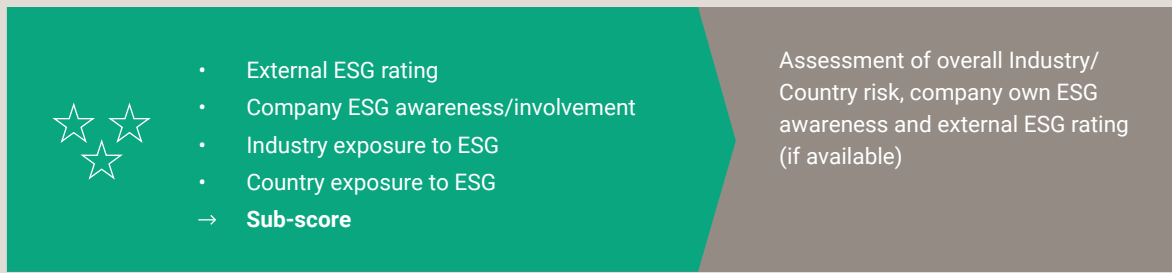


## 3. General Score

ESG scores are captured in a scoring template applied to all investments at Capital Four in a structured format that feeds into the general investment process. All information in the scoring framework is stored in our proprietary research management system. The scoring template is shown in Figure 4 below.

We score the ESG profile of a company on a scale from 1 to 5, where 1 is the best ESG score. We start with a neutral rating of 3 and then upgrade or downgrade the specific sub-scores. In the industry/company-specific section, a company is scored on Environment, Social and Governance relative to other companies within the industry. The subtotal is calculated as a simple average of the E, S and G scores.

**Figure 4: ESG Scoring Framework - General score**



The General Score includes:

- External ESG score from a service provider for reference (if such a score is available).
- Company ESG assessment/involvement evaluates the company’s overall ESG awareness from a management or owner perspective. This assessment is based on how well the company identifies, discloses and shows how they manage ESG risk in general. It also takes

into account if the company is a member of relevant collaborative initiatives, and if it publishes Sustainability Reports, answers ESG due diligence questionnaires, etc.

- Industry risk exposure reflects Capital Four’s assessment of the relevant industry’s general exposure to ESG issues compared to other industries.
- An assessment of Country exposure to ESG depending on where the relevant company is based.

## 4. Industry/Company-Specific Risk

When considering the materiality of ESG factors, Capital Four has been inspired by SASB’s mapping of material industry-specific ESG impacts and other sources.

In line with SASB, we see these impacts arising from the companies’ production of goods and services, including management of the environmental and social capital, and the impacts that sustainability challenges have on innovation, business models, corporate governance and vice versa. We have also sourced inspiration from rating agencies and a number of ESG data providers in order to establish a list of industry-specific ESG factors.

In conjunction with the industry investment analysts at Capital Four, we have assessed which of these factors we at Capital Four consider material for different industries. We have developed a description of each ESG factor in order to shape a common understanding of the risks and opportunities we associate with the individual ESG factors. The ESG factors we consider material for each industry are shown in Table 1 below.

How the individual company manages the industry-specific ESG risk exposure is assessed relative to the industry it is operating in, and is an essential part of the core company analysis performed by the investment analysts.

The total ESG score of a company is the simple average of the general sub-score and the industry/company-specific sub-score.

**Figure 5: ESG Scoring Framework - Industry/Company-specific risk**



At the end of the ESG scoring process, the sub-scores from the General Score and the Industry/Company-specific score are aggregated in Capital Four’s total ESG score.

Table 1: Material ESG risk factors, industry level

	Material sustainable risk factors																						
	Auto	Banks	Basic Industry	Capital Goods	Chemicals	Consumer Goods	Financial Service	Health Care	Insurance	Leisure	Media	Packaging Goods	Pharma	Real Estate	Retail	Services	Software & IT	Technology	Telco	Transportation	Utilities		
<b>Environmental</b>	High	Medium	High	Medium	High	Medium	Low	Low	Medium	Low	Low	High	Low	Medium	Medium	Low	Low	Medium	Low	High	High		
GHG emission	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Resource Management	●		●	●	●	●		●		●		●		●	●	●	●	●			●	●	
Material sourcing											●												
Toxic emission and waste	●		●		●	●							●								●		
Waste management															●							●	
Emission & Biodiversity			●																		●	●	
Product lifecycle environmental impact				●		●						●											
Climate change vulnerability									●														
Responsible Investment									●														
Financing Environmental impact		●					●																
Opportunity in emission-reducing tech	●																						
Opportunities in clean tech																							
Opportunities/risk in efficiencies and renewables																●	●	●			●		
Social																						●	
<b>Social</b>	High	Medium	Medium	Medium	High	High	High	High	Medium	High	High	Low	High	Medium	Medium	High	High	High	High	Medium	High	High	
Human capital	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Privacy and Data Security							●	●	●	●	●				●	●	●	●	●	●	●		
Product safety and quality	●	●		●	●	●		●		●		●	●		●					●	●	●	
Product governance/labeling and selling practices						●		●	●		●		●	●	●	●					●		
Selling / lender practises / Financial product safety		●					●																
Affordability/availability																						●	
Supply chain management			●	●		●				●		●			●			●			●		
Product impact on society														●									
Community relations			●		●																	●	
Access to basic services								●	●		●		●			●					●		
Access to finance / responsible investment		●																					
Responsible investment							●																
Opportunities in nutrition and health															●								
<b>Governance</b>	Medium	High	Medium	Low	Medium	Medium	High	Medium	High	Medium	Medium	Low	High	Medium	Medium	Medium	Medium	Medium	Medium	Medium	Medium	Low	
Corporate governance	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Corruption / Instability / Bribery	●		●					●					●								●	●	
Competitive behaviour								●		●			●		●		●	●	●	●			
Business ethics	●	●	●				●	●	●	●	●	●	●	●		●	●	●	●	●			
Political interference	●																						
Systematic risk management / Risk control systems		●			●		●		●								●	●	●				

## 5. ESG Integration in Security Selection

### Use of ESG analysis and scoring in Credit Write-Up

A key element in Capital Four's investment process is the company-specific Credit Write-Up produced by investment analysts, which includes ESG analysis and scoring. The credit-analysis process is aggregated and presented in a quantitative framework in conjunction with the Credit Write-Up.

### ESG integration in investment decisions

The analysis is performed by investment analysts in Capital Four's Research Team and is presented to Capital Four's portfolio managers in the Investment Committee for decision-making. Any conclusions agreed upon by the Investment Committee, incl. material ESG factors and impacts, are documented in an updated version of the Credit Write-Up.

In our Multi-Asset Credit strategies, we select individual credits and allocate among different credit asset classes by combining, e.g., high yield, senior loans, and structured credit. Identifying sustainability factors on individual credits

and aggregating ESG data across credit asset classes make it possible for Capital Four's portfolio managers to integrate ESG in both the relative value allocation decisions as well as security selection decisions.

### Monitoring of sustainability factors and engagement

Capital Four's Research Team is responsible for the ongoing monitoring of existing investments. Monitoring of developments on material sustainability factors and engagement with the issuer is integrated in the ongoing due diligence of the investment, including monitoring of financial statements, news flow, industry trends, regulatory changes and dialogue with management/sponsor.

The individual ESG scores will be reviewed at least yearly but can be reassessed at any given point when new information is received.

The ESG data gathering, analysis and scoring further helps provide the analyst with key information and focus areas for engagement with the underlying issuer.



# Sustainability of Capital Four’s Corporate Activities

## Our Environmental Footprint

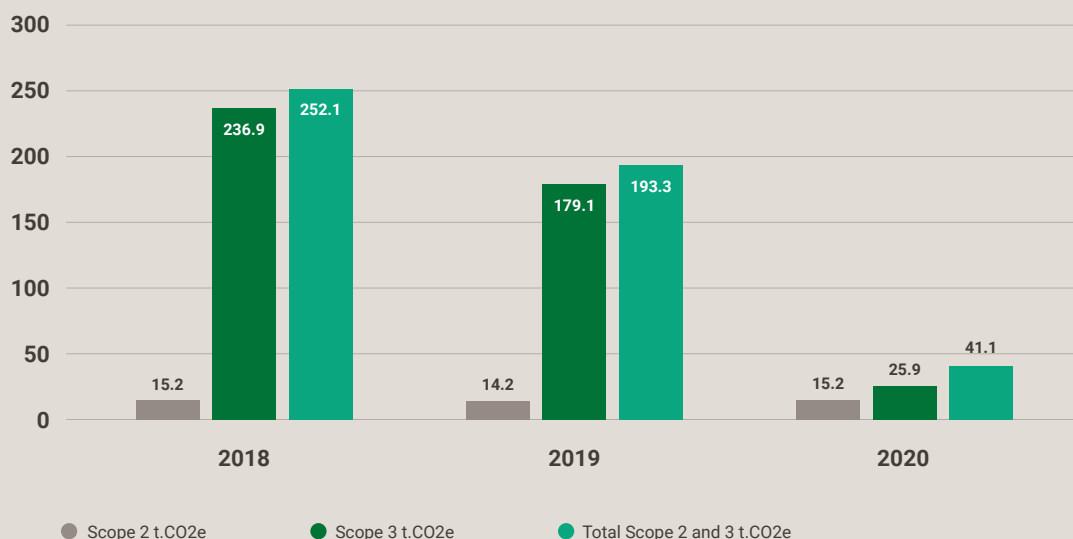
We are committed to reducing our corporate CO2 footprint.

We aim to reduce business travel activities by encouraging online communication as an alternative to local and long-distance meetings when appropriate. When we do fly, we offset our carbon emissions. Subsidized transit passes are available for employees to encourage the reduction of carbon emissions in daily commuting.

Our electricity usage is moderated by the installation of motion sensors to avoid unnecessary usage in the Copenhagen Office. To further reduce our carbon footprint, we have from 2021 started sourcing guarantees of origin on all electricity purchased. This ensures that the electricity we use originates from renewable energy sources.

In 2021 we initiated the mapping and calculating of our corporate CO2 footprint according to the Greenhouse Gas Protocol<sup>2</sup>. Capital Four does not have any direct emissions from owned sources, i.e., Scope 1 emissions. Therefore, only CO2e emissions based on Scope 2<sup>3</sup> and Scope 3 of our corporate activities are shown in figure 1<sup>4</sup>. The significant drop in emissions in 2020 is primarily a result of very limited traveling activity due to Covid-19<sup>5</sup>.

Figure 6: Greenhouse Gas Emissions



<sup>2</sup> For more information see: <https://ghgprotocol.org/corporate-standard>

<sup>3</sup> Scope 2 emissions are calculated according to the location-based approach under the GHG Protocol

<sup>4</sup> Scope 1 emissions are defined as direct emissions from sources controlled by the company. Scope 2 emissions are defined as indirect emissions arising from the energy consumption of the company. Scope 3 emissions are defined as other indirect emissions such as emissions from travel and supply chain. The scope 2 and 3 emissions cover the Danish-based activities of Capital Four

<sup>5</sup> For more information on CO2 footprint calculation, please see the methodology section

**Waste and recycling**

Capital Four aims to reduce office waste and increase recycling.

Paper consumption is limited by providing our employees with tablet computers. Since this initiative was implemented the company's paper consumption has decreased by approximately 66%<sup>6</sup>.

At the office we sort waste and recycle ink cartridges and bottles. To reduce single-use plastic products we have installed water aerators in the office and introduced reusable water bottles.

In 2020, Capital Four generated 1.7 tonnes of waste. This is lower than 2019, despite a 26% increase in the number of full-time employees (FTEs). The reduction is also due to the Covid-19 pandemic, which has resulted in fewer days spent in the offices.

**Table 2: Waste generation and recycling**

	2018	2019	2020
Total waste generation (tonnes)	1.3	2.4	1.7
% of waste for recycling	14%	24%	17%
Waste per FTE (tonnes)	0.02	0.04	0.02

**People and culture**

Capital Four's ability to attract, retain and develop our employees is key to continued success. A positive and encouraging working environment is fundamental to releasing the full potential of the team and to maintaining our progressive entrepreneurial mindset.

We aim to foster an inclusive work environment where, regardless of age, nationality, gender identity, sexual orientation, religion, social background, or race and ethnicity, employees' contributions and perspectives are encouraged and valued. We believe that a diverse workforce creates a better work environment and ultimately better business results. Our values are built on respect between colleagues. We do not tolerate harassment or discrimination and we respect our employees' right to freedom of association.

We are a fast-growing company with a workforce that grew 26% from 2019 to 2020. Our high retention rate anchors the Capital Four culture (See table 3). When hiring, we want to hire the best people and encourage all people with relevant objective qualifications to apply for the position. Currently 23% of our employees at our Copenhagen office have an international background and 13 different nationalities are represented.

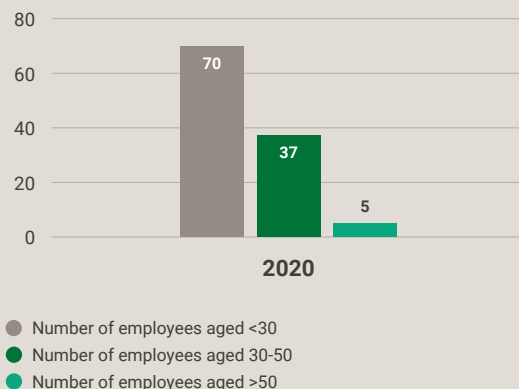
**Table 3: Number of employees and turnover**

	2018	2019	2020
Total FTE	52	61	77
Total headcount	62	89	102
Employee turnover	2%	9%	5%

Share of employees with international background: **23%**

Students are an integral part of our workforce and we take pride in growing our own talent while also working with universities to help educate and encourage developing professionals. Capital Four has in the previous years held and participated in several events with Nordic universities such as Aarhus University, Lund University and Copenhagen Business School.

**Figure 7: Employee age groups**



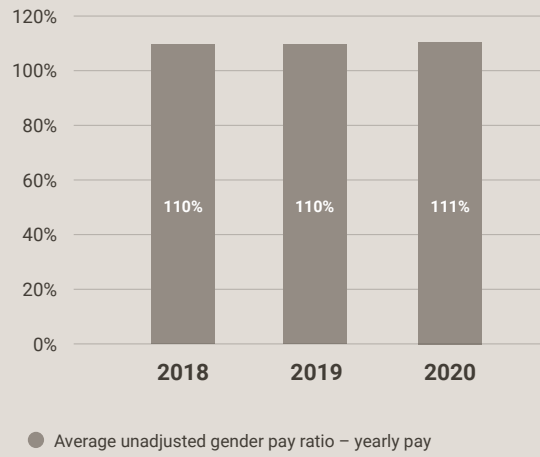
We acknowledge that female employees in general are underrepresented in the financial sector. For the last few years, we have more than doubled the number of female employees in our team. We believe it is important for us to be able to attract female employees as well as employees with different backgrounds in order to maintain our progressive and entrepreneurial mindset. We will continue to focus on improving gender balance at Capital Four when hiring and through promoting people.

<sup>6</sup> This estimate is measured as paper consumption per employee and is our approximation.

**Table 4: Gender balance**

Gender balance (total)	2018	2019	2020
Female	27%	30%	29%
Male	73%	70%	71%
<b>Gender balance (management)</b>			
Female	18%	25%	25%
Male	82%	75%	75%
<b>Gender balance (Board of Directors)</b>			
Female	0%	0%	0%
Male	100%	100%	100%

**Figure 8: Gender pay ratio male/female**



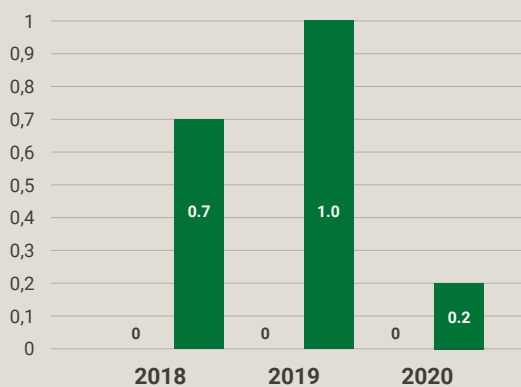
We encourage the development of our employees and support ongoing education, skillset improvement and further professional development. This includes supporting all employees in attending relevant training courses, obtaining professional qualifications and subscribing to relevant and professional literature and journals. To strengthen individual career development, we offer a mentorship program for all full-time employees and a buddy program for our part-time students. Covid impacted the offering of, and ability to attend relevant education during 2020.

**Table 5: Employee education**

	2018	2019	2020
Total number of hours spent on education	78	749	518
Total number of education hours per FTE	1.5	12.3	6.7

The ongoing wellbeing of our employees is important to us and we offer our employees a flexible working environment with the possibility of working from the offices, home or remotely when required. A Health and Safety committee has been established, with the objective of ensuring that employees are safe, healthy and happy in the workplace. As part of this process, we have engaged an external service provider to organize our workplace evaluation. The workplace evaluation is a survey for all employees to evaluate their job satisfaction as well as their physical and mental condition. The survey is performed at least every three years and the results are evaluated by the Capital Four Health and Safety committee.

**Figure 9: Sick leave**



● Numbers of psycho-social disorders per numbers of employees  
 ● Sick leave per FTE

Capital Four offers an attractive pension contribution and private health insurance to permanent full-time employees. We value long-term relationships with our employees, so full-time employees participate in the company's long-term incentive program. Our employees can thereby be part of long-term value creation, in addition to their salary, bonus, pension and insurance benefits.

## Governance

Capital Four believes that strong governance and ethical business practices are fundamental to ensure clients' and stakeholders' trust, and to maintain successful investment activities.

All employees are responsible for complying with our Code of Conduct and all Capital Four policies and procedures relevant for their respective positions.

Every employee is given an overview of the firm's policies and procedures along with the mandatory annual compliance training. The training covers the firm's code of conduct and other relevant policies and procedures as deemed necessary.

All employees attend information meetings throughout the year to keep up-to-date with the activities that go on in the various departments at Capital Four, such as investment, research, trading, human resources, compliance, business development and legal. An employee handbook has been created which outlines the employee's rights, benefits and expected behavior.

Capital Four's focus on responsible business conduct also covers our suppliers. We aim for all suppliers to adhere to the principles laid out in the UN Global Compact and have introduced it as a requirement for all new suppliers that we engage with from October 2021. If Capital Four becomes aware of any severe issues related to breaches of the principles of the UN Global Compact by a supplier, we will engage the supplier. If we do not deem the answer of the supplier to adequately address the issue, we may terminate the contract. Capital Four will rely on policy-level assurance provided to Capital Four by the suppliers and will not perform our own supplier audits.



## Remuneration

The Boards of Directors of the entities in the Capital Four Holding have adopted a joint remuneration policy with the objective of attracting, retaining, developing and rewarding the employees who contribute to creating value for Capital Four and its clients. The policy ensures that the overall remuneration model is aligned with sound and efficient risk management principles. The members of the Board of Directors of Capital Four are compensated only with fixed remuneration, if any, and not with any variable remuneration. The members of the Management Board of Capital Four are compensated with a fixed and a variable remuneration subject to the limitations for variable remuneration. No employee at Capital Four is entitled to a remuneration of EUR 1 million or more per financial year.

**Table 6: CEO pay ratio**

	2018	2019	2020
CEO pay ratio – base salary	288%	288%	302%

## Risk Management

We have a great focus on carrying out risk assessment. On an ongoing basis, we assess Capital Four's risk of being misused for the purposes of money laundering and financing of terrorism. We assess the risk of bribery, corruption and money laundering pursuant to our internal policies and procedures when we conduct business.

Know Your Customer procedures are carried out on every current and potential client. We have a whistleblower system in place for any suspicion of financial compliance violations related to our organization. We aim to expand the whistleblower system to further cover harassment matters that can be difficult to report through conventional channels. Additionally, we have a gifts, events and lobbying policy as part of our Code of Conduct, to avoid any conflicts of interest. Each year, we conduct training of our employees including matters related to anti-corruption and bribery.

IT security risks and cyberattacks continue to be a significant issue for today's businesses. The Capital Four Group Policy for IT Security describes the security principles for our cyber security system and the principles for employees to follow in order to keep confidential information safe. The security principles include 2-factor authentication in systems at all times. Cyber security systems and policies are updated on a continuous basis to adapt to any new and emerging cyber security threats. The Capital Four Group Policy for IT Security is given to employees to read at the time of employment. Additionally, all Capital Four employees receive annual training in cybersecurity policies.

**Table 7: Compliance incidents and training**

	2018	2019	2020
Number of incidents of non-compliance with data protection and privacy policies and procedures	0	0	0
Percentage of employees trained in cybersecurity guidelines and policies	100	100	100

## Charity Giving

At Capital Four we are dedicated to supporting various non-profit organizations. Each year, employees decide which charities to support with a monetary donation from the firm. Our donations from 2017 to 2020 were to the following charities:



# Focus Areas for 2021/22

This section describes some of the sustainability areas that Capital Four will focus on during the rest of 2021 and 2022. This includes both initiatives regarding our investment activities and our own business operations.

In particular, we will focus on how we can contribute to mitigating climate change. For investment activities, it will be essential to measure and analyze the carbon footprint of each company so that we can work towards limiting the carbon footprint of the portfolio. Over time, it is our ambition that the portfolio will become aligned with the Paris Agreement target to limit global warming.

We have taken the first steps to map the footprint of our corporate activities. We have also taken steps to reduce our CO2 footprint (see *Sustainability of Capital Four's corporate activities*) and in 2022 we want to achieve carbon neutrality of our corporate activities.



## New Investments and Stewardship

- Calculate carbon footprint of portfolios and strategies
- Integrate and increase ESG data availability and quality into ESG Scoring Model
- Pursue carbon-reduction initiatives regarding the investment portfolio



## Capital Four's own Corporate Activities

- Calculating carbon footprint of corporate activities incl. scope 1-3
- Pursue carbon neutrality, incl. use of offsetting schemes and initiatives.

# UNGC Communication On Progress

## Declaration of support

To our stakeholders,

I am pleased to confirm that Capital Four reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption. We have integrated our annual Communication on Progress into our annual Sustainability report to show the way in which we contribute to the UNGC principles.

In this report, we describe our actions to continually improve the integration of sustainability, including

the UN Global Compact and its principles, into our business strategy, culture and daily operations. As an investment manager, we acknowledge that our main impact on our planet and society does not come from our corporate activities; rather, our main impact comes from our investments. Therefore, we focus on integrating sustainability throughout our investment process.

**Sandro Näf**  
CEO, Partner



## Human Rights

- 1) Businesses should support and respect the protection of internationally proclaimed human rights in their area of influence; and
- 2) make sure that they are not complicit in human rights abuses.

- Responsible Investing (page 5-7)
- ESG in the Investment Process (page 16-20)

## Labour

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

- Responsible Investing (page 5-7)
- ESG in the Investment Process (page 16-20)

## Environment

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

- Responsible Investing (page 5-7)
- Working with Carbon Data (page 14)
- ESG in the Investment Process (page 16-20)
- ESG Investment Cases (page 10 and page 15)
- Sustainability of Capital Four's Corporate Activities (page 21-25)

## Combating Corruption

- 10) Businesses should work against corruption in all its forms, including extortion and bribery.

- Responsible Investing (page 5-7)
- ESG in the Investment Process (page 16-20)
- Sustainability of Capital Four's Corporate Activities (page 21-25)

# About This Report

This is Capital Four's first annual Sustainability report. The presented data for Capital Four's Corporate activities refers to the period 1 January 2020 to 31 December 2020. The financial data presented in the report is updated as per September 2021.

This report covers the entities in Capital Four Holding.

The report was developed in collaboration with Klinkby Enge, an independent third-party advisor.

## Disclosure of Capital Four's commitments

This Sustainability report contains information relevant for Capital Four's ESG commitments.

- The report utilizes the information that Capital Four has provided in the 2021 PRI reporting and its Communication on Progress (COP) submission to the UNGC. See PRI content index on page 30 for references. See UNGC Principles references on page 27.

## Data methodology

### Capital Four's carbon footprint

The greenhouse gas (GHG) emissions of Capital Four are calculated according to the Greenhouse Gas Protocol. All emissions are reported as tonnes of CO<sub>2</sub> equivalents (t.CO<sub>2</sub>e) and comprise CO<sub>2</sub>e emissions from energy consumption, business travel and paper consumption. Data covers Capital Four's corporate activities in Copenhagen and is calculated according to the location-based approach of the GHG Protocol.

The total energy consumption of Capital Four is sourced from Capital Four's internal accounting system. Only electricity consumption is included in the CO<sub>2</sub>e calculation from energy consumption.

The emission factors used for electricity consumption are based on the average emission factors for Denmark, sourced from the International Energy Agency (IEA).

The total number of kilometers of business travel is sourced from Capital Four's accounting system. For the CO<sub>2</sub>e calculation, all kilometers of business travel are assumed to be done via plane, as it has not been possible to divide

data into business travel by air and by land. The total paper consumption is sourced from Capital Four's internal accounting system.

The emission factors used for calculating the CO<sub>2</sub>e emissions from business travel and paper consumption are sourced from the UK Government, Department of Environment, Food and Rural Affairs (DEFRA).

### Waste and recycling

The total waste generation and the amount of waste for recycling is sourced from an estimate based on how much waste Capital Four has on a daily basis.

### Number of employees

The number of FTEs, employee headcount and employee groups are sourced from our HR System Mindkey. All employees are registered in this system.

FTEs are calculated using the "ATP methodology".

The percentage of employees with an international background is calculated as the number of non-Danish employees employed by Capital Four divided by the population of salaried employees in Capital Four.

Gender balance is sourced from our HR System Mindkey.

Gender balance for management is sourced from our HR System Mindkey and calculated by counting the number of male and female employees in the management group.

### Gender pay

The average unadjusted gender pay ratio is calculated as the average male compensation compared to the average female compensation based on monthly full-time base salary across all salaried employee groups.

### Psycho-social disorders and sick leave

All sick leave registered in our HR System Mindkey and data is sourced from here. Psycho-social disorders should also be reported to HR and registered in our HR System Mindkey; however, we have no such cases over the reporting period.

**Education hours**

The total number of education hours is sourced from our manual registration of education pursued by employees and is calculated manually.

**CEO pay ratio**

The CEO pay ratio is calculated as the CEO total base salary compensation compared to the average FTE base salary of all employees.

**Incidents of non-compliance with data protection and privacy policies and procedures**

The data is sourced from our incident register in accordance with our Procedure for Internal Reporting of Incidents.

**Employees trained in cybersecurity guidelines and policies**

In Capital Four, we have mandatory cybersecurity training of all employees yearly. All participants need to register and verify their attendance at each training session. Data is sourced from this register.

# Reference Table

Report section	Page(s)	PRI indicator	TCFD
About Capital Four	3	OO 1: Categorisation	N/A
About Capital Four	3	OO 4: AUM	N/A
Investment Strategies	12-14	OO 5: Asset breakdown	N/A
ESG in the Investment Process	16-20	OO 6 FI: ESG incorporation strategy	N/A
ESG in the Investment Process	16-20	OO 9 FI: Stewardship	N/A
ESG in the Investment Process	16-20	OO 10: Incorporate ESG	Risk Management (Disclosure b) Metrics & Targets (Disclosure a)
Investment Strategies	12-14	OO 18: Geographical breakdown	N/A
Responsible Investing	5-7	ISP 1: Responsible investment policy	N/A
Responsible Investing	5-7	ISP 4: Exclusions	N/A
Responsible Investing	5-7	ISP 6: Governance – oversight	N/A
Responsible Investing	5-7	ISP 6: Governance - implementation	N/A
Responsible Investing, ESG in the Investment Process	5-7, 16-20	ISP 8: Governance - roles	N/A
Responsible Investing	5-7	ISP 9: Training	N/A
Responsible Investing	5-7	ISP 11: Stewardship policy	N/A
Responsible Investing	5-7	ISP 12: Stewardship policy	N/A
Responsible Investing	5-7	ISP 27: Public support – TCFD	N/A
ESG in the Investment Process	16-20	ISP 30: Strategy	Strategy (Disclosure a)
ESG in the Investment Process	16-20	ISP 32: Strategy	N/A
ESG in the Investment Process	16-20	ISP 35: risk management	Risk Management (Disclosure a)
Working with Carbon Data, ESG in the Investment Process	14, 16-20	ISP 36: risk management	Metrics & Targets (Disclosure a)
Focus areas for 2021/2022	26	ISP 37: risk management	Metrics and targets (Disclosure a)
ESG Framework, ESG in the Investment Process	7, 16-20	FI 1: Materiality analysis	N/A
ESG in the Investment Process	16-20	FI 2: ESG risk management	N/A
ESG in the Investment Process	16-20	FI 3: ESG incorporation in asset valuation	N/A
ESG in the Investment Process	16-20	FI 9: ESG risk management	N/A
ESG in the Investment Process	16-20	FI 10: ESG risk management	N/A
About Capital Four	4	ISP 27: Public support - TCFD	N/A
Sustainability of Capital Four's Corporate Activities	21-25	N/A	Metrics & Targets (Disclosure b)

# Data Tables

## Capital Four Environmental data

Data point	Unit	Data 2018	Data 2019	Data 2020
Scope 1 GHG emissions	Tonnes	0	0	0
CO2e from electricity consumption	Tonnes	15.2	14.2	15.2
Scope 2 GHG emissions	Tonnes	15.2	14.2	15.2
CO2e from travel by plane	Tonnes	232.2	172.2	21.3
CO2e from paper consumption	Tonnes	4.7	6.8	4.7
Scope 3 GHG emissions	Tonnes	236.9	179.1	25.9
Total Scope 1 to 3 GHG emissions	Tonnes	252.1	193.3	41.1
Total CO2e per FTE	Tonnes per FTE	4.8	3.2	0.5
Total CO2e per headcount	Tonnes per headcount	4.1	2.2	0.4
Total electricity consumption (purchased electricity)	MWh	72.9	93.4	90.1
Annual business travel by plane - Economy	Km	1,270,637	952,793	116,911
Total waste generation	Tonnes	1.3	2.4	1.7
Waste for recycling	Tonnes	0.2	0.6	0.3
Waste per FTE	Tonnes	0.02	0.04	0.02
Waste per headcount	Tonnes	0.02	0.03	0.02

## Capital Four Social data

Data point	Unit	Data 2018	Data 2019	Data 2020
Total FTE	Number	52	61	77
Total headcount	Number	62	89	102
Gender balance - total	Percentage women	27%	30%	29%
Gender balance - management	Percentage women	18%	25%	25%

(Continued on the next page)

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Gender balance - Board of Directors	Percentage women	0	0	0
Number of female employees aged <30	Number	4	11	17
Number of male employees aged <30	Number	19	31	53
Number of female employees aged 30-50	Number	10	13	14
Number of male employees aged 30-50	Number	19	24	23
Number of female employees aged >50	Number	1	1	1
Number of male employees aged >50	Number	3	4	4
Share of employees with international background	Percentage			23%
Average unadjusted gender pay ratio - yearly pay	Percentage men to women	110%	110%	111%
Numbers of psycho-social disorders per numbers of employees	Number	0	0	0
Sick leave	Number of days	37	58	12
Sick leave per FTE	Number of days	0.7	1.0	0.2
Sick leave per headcount	Number of days	0.6	0.7	0.1
Employee turnover	Percentage	2%	9%	5%
Total number of hours spent on education	Number of hours	78	749	518
Education hours per FTE	Number of hours	1.5	12.3	6.7
Education hours per Headcount	Number of hours	1.3	8.4	5.1

## Capital Four Governance data

Data point	Unit	Data 2018	Data 2019	Data 2020
CEO pay ratio - base salary	CEO to average employee	288%	288%	302%
Number of incidents of non-compliance with data protection and privacy policies and procedures	Number	0	0	0
Percentage of employees trained in cybersecurity guidelines and policies	Percentage	100%	100%	100%



# CAPITAL FOUR

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Capital Four  
Per Henrik Lings Allé 2, 8th floor  
2100 Copenhagen Ø

Capital Four Management  
Fondsmæglerselskab A/S  
CVR: 30 59 30 65

Capital Four AIFM A/S  
CVR 35 67 06 37