

The background of the report cover is a photograph of a modern building with a glass facade. The building's glass panels reflect the surrounding green trees and the sky. The perspective is looking up at the building, creating a sense of height and scale. The trees are lush and green, with sunlight filtering through the leaves. The overall color palette is dominated by greens and blues.

2022

Sustainability Report

Polus Capital Management

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INTRODUCTION

Welcome to our second annual sustainability report. We are proud to share our progress on ESG, demonstrating our commitment to a sustainable future.

It has been a tremendously busy year. Thirteen months after we closed the merger between Cairn Capital and Bybrook Capital, the combined firm re-launched as **Polus Capital Management ("Polus")** in November 2022, capitalising on the investment synergies between the two organisations.

ESG regulations, engagement, investor reporting, and climate change risk remained the most commonly discussed ESG topics on Polus' platform throughout 2022.

The **regulatory landscape** continues to evolve in the EU. The recent joint consultation from the European Supervisory Authorities (ESAs) with proposed amendments to the EU's Sustainable Finance Disclosure Regulation (EU SFDR) could alter the practical implementation of the rules. Meanwhile, in the UK, asset managers face an uncertain regulatory environment with the FCA's proposals for the UK's very own investment labels and Sustainability Disclosure Requirements (SDR).

In 2022, we enhanced and delivered our **annual ESG reports** to our investors, for our special situations funds and the CLOs managed by Cairn Loan Investments. We have collected or estimated the carbon footprint of 100% of our special situations control positions and the leveraged credit portfolios. This is an enormous achievement, and I thank all teams for pulling through and delivering on this vital objective.

With respect to **climate change**, we recognise the importance of addressing the climate crisis and understand that climate change poses significant risks to our business, investments, economy and society. Asset managers have a crucial role to play in accelerating the transition to a net-zero carbon economy.

For this purpose, we finalised our **TCFD report** for 2022, enhancing our understanding of the climate change risks and opportunities that we face as a business.

Our TCFD report has been in the making for a couple of years, and we are proud to deliver this to our investors. The report sets out how

Polus incorporates climate-related risks and opportunities into its governance, strategy, risk management, metrics and targets, in line with the TCFD recommendations, and how we are responding to rising expectations of our investors and updated regulatory requirements.

Our portfolio companies have made remarkable progress over the last year. For one of our portfolios, nearly 70% of portfolio companies where we have control positions now measure and report their GHG emissions, compared to 27% last year; over 35% have Paris-alignment ambitions, versus 3% last year, and almost 10% have GHG emissions reduction targets that are approved by the Science Based Targets initiative (SBTi), versus none last year.

Throughout 2022, we also enhanced **our engagement efforts on ESG topics** with portfolio companies, trade bodies, peers and policymakers, and we acknowledge we can still do more in this space. We thank our portfolio companies who have been actively engaging with us.

As we increasingly realise, ESG, responsible investing and sustainable consumerism are not going away anytime soon from our markets and world. This does not deter us but makes us excited about the upcoming challenges and hopeful for the progress we will make in this.

As always, we are happy to have a conversation, so please do not hesitate to reach out with comments, criticism or encouragement.



Tina De Baere
Head of ESG



ABOUT THIS REPORT

This report provides detailed information on our policies and initiatives at the firm level.

ESG Governance

The culture at Polus starts at the top and it is the executive management's commitment to accelerate ESG priorities that provides the foundation for the firm's values.

Polus' Board and Executive Management Committee ("EMC") have oversight responsibilities across the firm's ESG initiatives, with the Head of ESG reporting to the Board and the EMC on the progress and success of policy implementation.

Polus' Head of ESG, Tina De Baere, focuses full-time on the firm's ESG strategy. Tina provides in-house expertise and spearheads

ESG initiatives within the firm, with peers and portfolio companies. Tina works closely with the investment team to integrate ESG factors into the investment process with ad hoc support from the ESG Policy Committee.

The ESG Policy Committee comprises senior executives from across the business, including Andrew Burke (CIO, Leveraged Credit), Graham Murphy (CRO) and Christian Herrmann (senior Special Situations analyst). The Committee and other stakeholders meet quarterly to review the policy and its implementation.

	Oversight		Implementation	
	ESG	Climate Change	ESG	Climate Change
Board	●	●		
EMC	●	●	●	●
ESG Policy Committee	●	●	●	●
Head of ESG	●	●	●	●
Investment Team			●	●

ESG Policy

Our ESG Policy applies to the entire firm and is available on our [website](#). Our ESG approach is based on three pillars:

- (1) Manager level ESG activities;
- (2) Portfolio level ESG activities; and
- (3) Industry collaboration.

We have structured this report around these three pillars to share our key achievements with you during the last 12 months.





MANAGER LEVEL ESG ACTIVITIES

Polus strives to be a socially responsible company by integrating sustainability into its business strategy and management. Specifically, we focus on our people, our community and our environment.

Our People

In 2022, as part of ongoing efforts to ensure our workplace is inclusive and open, with enhanced communication across all levels, Polus launched a quarterly "Breakfast with the EMC" event. Staff, especially those who might not otherwise have the opportunity to engage directly or frequently with members of the EMC, have a chance to do so in an informal environment.

We also launched "Lunch & Learn" sessions where individuals or teams present an overview of what they do or dive into their specialist areas. These sessions provide a forum for our colleagues to showcase and share their subject knowledge.

To drive greater social interaction and foster relationship-building amongst teams, we also created a Social Committee, delivering social events throughout the year.

D&I Initiatives

Polus is committed to attracting, developing and retaining a diverse workforce and providing an inclusive work environment built on trust, respect and integrity. As such, we launched our D&I Committee in 2020.

The Committee advises the EMC on the firm's D&I strategy and helps implement various initiatives. The focus has been to:

- (1) increase hiring and promotion of diverse talent;
- (2) train and educate employees on D&I topics;
- (3) implement initiatives to promote inclusion; and
- (4) positively impact our local community.

D&I staff engagement survey

In 2021, the D&I Committee debuted its D&I engagement survey for employees to improve our understanding of D&I within our firm.

In 2022, we surveyed employees again.

The purpose of the survey is to collect diversity statistics and measure the degree of inclusion employees feel within the workplace. The survey collects employees' personal views on, for example, Polus' recruitment processes, employees' sense of psychological safety and career progression paths within the firm.

As of July 2022, when the survey was last conducted, the proportion of women totalled 26% (up from 17% in the preceding year) and the percentage of staff from an ethnic minority background totalled 9% (dropped from 11% in 2021).

Staff continued to engage with the survey and in 2022 survey we achieved an impressive 95% staff response rate (up from 82% in 2021).

Promoting the hiring of more diverse talent

The D&I Committee continues to actively liaise with recruiting teams. We have been taking measures to minimise bias within our selection process and some practices we are currently implementing include:

- the use of blind CVs
- requesting the recruitment agencies that we work with to incorporate D&I considerations into their processes
- adopting a more structured interview process where possible
- raising awareness across teams to create neutral job descriptions that focus on deliverables
- gathering diversity stats of applicants where possible throughout the interview process
- staff guidelines for personnel recruitment with a particular focus on D&I considerations

Fairfield Enterprise

Polus is committed to addressing the issue of social mobility in finance. As a result, in 2022, Polus partnered with [Fairfield Enterprise](#), a UK social mobility charity that assists ambitious 19-24-year-olds from low-income backgrounds to build successful careers in the finance industry.

We are working with Fairfield Enterprise to develop Polus' summer internship programme and we have committed to being an ongoing resource to the charity's young members through sharing our knowledge and experience of our industry.

Polus has also participated in Fairfield Enterprise's "Function of Financial Markets" event which allowed Fairfield's Core Programme candidates to meet industry professionals.

D&I policy

We have formalised our commitment to D&I in a policy document.

Our Local Community

Charitable donations

Polus continues to support charities, aligned with its D&I Committee's objectives. In 2022, staff voted to partner with and donate a total of £9,000 to the following three charities:

- [Black Heart Foundation](#)
The Foundation is dedicated to improving the educational access, quality and outcomes for children from underprivileged backgrounds in low-resource environments and those who are otherwise 'at risk' due to poor health or nutrition.
- [Southside Young Leaders Academy](#)
Southside Young Leaders Academy is an early intervention organisation, providing

support to Black, Asian and Minority Ethnic boys aged 8-16 years old and their parents or guardians that reside in the London Boroughs of Southwark and Lambeth.

■ [Smart Works](#)

Smart Works is a charity that provides women with coaching and dressing services to support their journey to employment.

In November 2022, staff participated in Movember and raised £3,703 for the charity.

Volunteering

Polus encourages employees to volunteer at a local charity and offers two paid days a year for volunteering projects.

In 2022, Polus' staff volunteered at the following charities or charity events:

- UBS' Global Markets [SportInspired](#) Autumn Games Day. The day is designed to work with 200 disadvantaged children aged 7 to 10, assisted by 100 volunteers, six local sports clubs and the Young Leader motivational hosts from the Bridge Academy who are aged 14.
- Smart Works volunteers participated as coaches in one-to-one sessions designed to identify tangible steps to secure employment through career coaching and interview preparation.



Our Environment

As an office-based company with a simple supply chain, our environmental impacts are limited (excluding our financed emissions). However, we can improve our emissions, energy and water use.

In 2020, the company moved to a BREEAM-certified office at 62 Buckingham Gate, a building that uses electricity from renewable sources.

In 2021, Polus engaged a consultant to measure the firm's **corporate carbon footprint** and assist us in achieving carbon neutrality at the firm level.

We have completed the measurement of our corporate carbon footprint for 2019, 2021 and 2022. This includes scopes 1 and 2 and aspects of scope 3, such as staff commuting and business travel.

We are committed to offsetting our carbon footprint (including our estimated scope 3) and addressing our practices to reduce our emissions.

For example, we recently signed up for the Octopus electric vehicle (EV) scheme, offering employees an EV salary sacrifice scheme to reduce Polus' and employees' carbon footprints.

In 2022, we supported the following three offset projects:

- (1) A portfolio of various renewable energy projects throughout Asia
- (2) A wind energy project in Chile
- (3) A wind energy project in South Africa



More details about our footprint and offset projects can be found using the link below:

ClimatePartner.com/17638-2205-1001



Accreditations and Commitments

As a manager, we have committed to upholding industry-leading professional standards.

Principles for Responsible Investment (PRI)



Polus is a signatory to the PRI.

Since January 2020, our Head of ESG has been an active member of the PRI Securitised Products Advisory Committee. The Committee advises the PRI on its programme to identify how ESG factors are considered in structured products, enabling collaboration for change and impact.

In October 2022, our Head of ESG discussed how ESG data is used in securitised products on a [PRI podcast](#).

Throughout 2022, our Head of ESG was involved in several ESG workshops with the PRI and the UN Environment Programme Finance Initiative (UN EPFI).

Standards Board for Alternative Investments (SBAI)



Polus is a signatory to the SBAI and supports the SBAI standards, which cover the areas of disclosure, valuation, risk management, fund governance and shareholder conduct.

Polus is a member of SBAI's Responsible Investment Working Group.

UN Global Compact (UNGC)



United Nations
Global Compact

Through Mediobanca S.p.A., Polus is a participant in the UNGC, which seeks to promote responsible corporate citizenship based on [ten principles](#) across the areas of human rights, labour, environment and anti-corruption.



PORTFOLIO LEVEL ESG ACTIVITIES

Polus views ESG not as a cost but as an essential tool for value creation which is an integral part of the investment process. We incorporate ESG through negative screening, ESG integration and ESG engagement.

Negative Screening

We avoid controversial weapons on a firm-wide basis. In addition, some of our mandates restrict exposure to, for example, thermal coal extraction, civilian firearms, tobacco production, pornography, prostitution, payday lending and speculative oil and gas extraction.

ESG Integration

We adopt a fundamental bottom-up approach to assess an investment against ESG metrics.

Our approach differs by asset class and a separate 'ESG Procedures' document provides an overview of each approach.

For **leveraged credit**, credit analysts systematically integrate material ESG factors into the investment process and, where relevant, there is a dedicated ESG section in the investment memo. Each corporate borrower in the portfolio is assigned an ESG score.

For **special situations assets**, the approach depends on the type of investment (e.g. long, short or litigation) and the level of influence.

For control and influence positions, we seek to drive ESG performance to unlock potential value. This involves improving governance, often the fastest driver of value destruction. In our experience, once governance weaknesses are addressed, improving other ESG areas within the company becomes easier.

Earlier this year, we decided to include 14 governance KPIs into our standard governance assessment which is conducted for all long positions.

For passive long positions, we still look to push for improved ESG performance, but the ability to influence is more limited.

We also have short positions in securities where, in our view, ESG risks are not reflected in the price and have funded litigations against companies or individuals with poor ESG performance.

TCFD Reporting

We finalised our 2022 climate change report compiled in line with the recommendations of the Financial Services Board's Task Force on Climate-related Financial Disclosures (TCFD) – available upon investor request. The TCFD recommendations provide a framework for disclosing a business' material climate-related physical and transition risks and opportunities. Our TCFD report is part of our broader efforts to address climate change risk and is one way we support the Paris Agreement.

Regarding our investment opportunities, we take a proactive approach to identifying and assessing climate change risks, and we engage directly with portfolio companies on this topic whenever possible. We encourage portfolio companies to transition and align with the Paris Agreement.

In 2022, we subscribed to a third-party data vendor to assist us in the carbon footprint measurement of our portfolios. As a result, as of the end of 2022, the investment team has been able to collect or estimate the carbon footprint for 100% of our special situations control positions and the leveraged credit investment portfolios.

Post-investment, the investment team conducts a high-level climate change risk assessment for our portfolio companies, considering both physical and transition risks (including regulatory risks) that portfolio companies face from climate change. The assessment is based on a qualitative analysis of market and regulatory frameworks and future trends. The investment team identified high, medium and low risk sectors within the portfolio.

These assessments have been carried out for our special situations and leveraged credit strategies annually. For structured credit however, significant data challenges remain.

In special situations control positions, we encourage firms to generate lower carbon emissions and reduce the risks arising from climate change. We track and report on any measurable progress. For example, for some of our portfolio companies, we enabled GHG emissions and energy consumption improvements, installed solar panels, encouraged and enacted programmes to measure waste generation and water consumption, or launched funding of afforestation initiatives and environmental restoration programmes.






ESG Engagement

Polus takes two approaches to engagement: bilateral and collaborative engagement.

For our leveraged credit business, we stimulate dialogue with issuers on strategy, risk and any specific ESG topics. We encourage companies to improve their practices and maintain long-term direct dialogue. In 2022, we identified five borrowers with the lowest ESG scores and the highest exposure across our leveraged credit portfolio and approached them with our ESG concerns.

For our special situations portfolio, the investment team tracks any Sustainable Development Goals (SDG)-alignment of investments as follows, as part of our pre-investment process:

SGD Alignment

ESG Priority Areas	Linked UN SDGs	Indicator	Relevance (Y/N)
Corporate Governance & Reporting	Peace, justice and strong institutions 	Transparent reporting? ESG/ Sustainability report published?	
GHG Emissions	Climate Action 	GHG emissions (scope 1 & 2), Carbon footprint, GHG intensity, reported/estimated data, Paris-alignment, SBTi verified, climate scenario sensitivity of returns	
Health & Safety	Decent work and economic growth 	Rate of accidents*, LTIR*, Accident prevention policy*	
Diversity & Inclusion	Gender equality 	Gender diversity statistics*, % females of total workforce, senior management and/or board*	
Sustainable Infrastructure & Industrialisation	Industry, innovation and infrastructure 	Implementation of resource efficiency programme*, supporting increase in industrial output*	

* Reporting only for all active positions, if available

For special situations, the approach depends on the level of influence embedded in the investment.

For control and influence positions, we engage with companies at the board level to drive ESG performance. We encourage boards to set annual ESG targets, for example, in relation to GHG emissions and in line with science-based targets where possible, putting companies on a reduction path to net-zero by 2050.

In 2022, the special situations investment team reached out to all portfolio companies on long positions with an exposure exceeding \$USD 5m. We encouraged companies to continue to embed ESG within their business, produce investor information on their ESG practices and keep us informed on any ESG progress and developments.

Polus is focused all areas of ESG. However, areas with a particular focus are governance and reporting transparency, GHG emissions, accident rates, forced and child labour prevention, anti-bribery and D&I.



INDUSTRY COLLABORATION

Apart from bilateral engagement, Polus also collaborates with like-minded peers to speak with one voice when engaging with and setting standards for corporate borrowers. We do this, for example, through our involvement in the following two industry associations:



European Leveraged Finance Association (ELFA)

Polus works closely with ELFA to facilitate engagement between investors and corporate borrowers on important ESG topics. ELFA is a professional trade association representing the European leveraged finance investor community.

Our Head of ESG is involved in ELFA's ESG Disclosure Initiative as co-Chair of the ELFA ESG Committee. She is also the co-author of ELFA's [ESG Fact Sheets](#), designed to support borrowers in preparing ESG disclosure and outline the most material ESG topics for a given corporate sector.

Throughout 2022, our Head of ESG participated in four ELFA ESG workshops:

- (1) with borrowers from the gaming sector;
- (2) with borrowers from the food & beverage sector;
- (3) with ELFA members discussing the practicalities of investor ESG engagement; and
- (4) with ELFA members discussing implementation challenges of the EU's Sustainable Finance Disclosure Regulation (SFDR).

Tina also authored five ELFA Insights reports throughout the year.



Alternative Investment Management Association (AIMA)

Polus is a member of AIMA's ESG Working Group. This working group aims to promote ESG integration and ESG disclosure in the alternative investment market.

Our Chief Risk Officer was involved in the newly updated "AIMA Guide to Sound Practices for the Valuation of Investments".

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