



POLUS
CAPITAL MANAGEMENT



2023

Sustainability Report

Polus Capital Management

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INTRODUCTION

Welcome to our third annual sustainability report. We are delighted to share our progress on ESG initiatives, underscoring our ongoing commitment to a sustainable future.

We have had an exciting year marked by several remarkable milestones.

Firstly, Polus Capital Management ("**Polus**") launched its first Special Situations Article 8 fund under the EU SFDR regulatory framework. This launch signifies a significant step in our commitment to providing products for our investors that meet their sustainability needs and disclosure requirements.

Secondly, in 2023, we received our latest PRI scores, all higher than the peer median score, which we are incredibly pleased with. These scores reflect our dedication and commitment to high standards of responsible investment practices.

Over the past year, we have further enhanced our ESG policies and processes. Notably, we refined our approach to ESG integration in Structured Credit investments. These revisions underscore our commitment to continuously evolving our ESG framework to address emerging challenges and opportunities in the investment landscape.

In 2023, we also developed our [ESG Engagement Policy](#) and published our [Modern Slavery Statement](#), both available on our website. These initiatives reflect our stance on critical social issues and our dedication to transparency and accountability.

On the Diversity & Inclusion ("**D&I**") front, we continue to be committed to addressing the issue of social mobility in finance and remain devoted to our partnership with Fairfield Enterprise, a UK social mobility charity that assists ambitious 19 to 24 year olds from low-income backgrounds to build successful careers in the finance industry. We are currently preparing for the upcoming summer internship programme.

The D&I Committee remains dedicated to its mission, and our staff continues to engage actively with D&I topics, as evidenced by the impressive 98% response rate in our latest D&I engagement survey in 2023.

Looking ahead, our primary focus is to bolster our internal infrastructure and procedures to enhance the efficiency and effectiveness of collecting, storing, and managing our expanding repository of ESG data concerning our portfolio companies. This will enable us to provide more comprehensive and accurate reporting, support better decision-making and further align our practices with our sustainability goals.

As we reflect on our progress and plan for the future, we remain committed to fostering a culture of continuous improvement and innovation in our ESG practices. Our efforts not only benefit our investors but also contribute to the broader goal of achieving a sustainable and equitable future for all.

We welcome ongoing dialogue and encourage you to reach out with any comments, suggestions, or feedback. Your insights and perspectives are invaluable to us as we strive to improve and evolve our ESG initiatives.



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

At Polus, the culture is driven from the top, with executive management's dedication to advancing ESG priorities laying the foundation for the firm's core values. The Board and Executive Management Committee ("**EMC**") oversee the firm's ESG initiatives, with Tina De Baere, Head of ESG at Polus, regularly reporting to both on policy progress and success.

Tina is dedicated full-time to the firm's ESG strategy. She provides in-house expertise and leads ESG initiatives within the firm and among peers and portfolio companies. Tina

collaborates closely with the investment team to incorporate ESG factors into the investment process, receiving support from the ESG Policy Committee.

The ESG Policy Committee consists of senior executives from across the business, including Andrew Burke (CIO Leveraged Credit), Graham Murphy (Chief Risk Officer), and Christian Herrmann (Special Situations Senior Analyst). This Committee, along with other stakeholders, meets quarterly to review and assess Polus' ESG Policy and its implementation.

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

ESG Policy

Over the last year, we have dedicated significant efforts to strengthening our ESG Policy documentation. Notably, we have made several updates, including refining our approach to ESG integration in Structured Credit investments and incorporating a section on our US Leveraged Credit strategy. We have also refined our policy to align closer to Mediobanca's Group ESG Policy. These revisions highlight our commitment to continuously evolving our ESG framework to address emerging challenges and opportunities in the investment landscape.

Polus' 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 has focused on integrating ESG factors into its business and investment process since 2017.

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

Our People

Employee development

We have implemented an improved employee review process ensuring clearer directions on employee development. By fostering transparent communication and setting clear expectations, we aim to elevate the quality of professional growth.

Combating modern slavery

In 2023, we published our [Modern Slavery Statement](#) on our website. The statement outlines our commitment to combating modern slavery and human trafficking within our operations and supply chains. The statement also details our policies, risk assessments, and due diligence processes aimed at minimising the risk of slavery.

Social Committee

The Social Committee was launched in 2023 to increase the frequency of company-wide social events and promote cross-team engagement. The purpose is to drive greater social interaction and foster relationship-building amongst teams.

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

Since 2021, the D&I Committee has rolled out its annual D&I engagement survey for employees to improve our understanding of D&I within our firm.

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 their views on career progression paths within the firm.

As of July 2023, when the survey was conducted, the proportion of women totalled 23% (down from 26% in 2022, and up from 17% in 2021) and the percentage of staff with an ethnic minority background equalled 21% (representing an increase from 9% in 2022, and 11% in 2021).

For the first time, we also surveyed employees on neurodiverse conditions and socio-economic backgrounds.

Staff continued to engage with the survey and the 2023 survey achieved an impressive 98% staff response rate (up from 95% in 2022 and 82% in 2021).

Fairfield Enterprise

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

Summer internship programme

In 2023, we launched our summer internship programme. A summer intern, sourced with the help of Fairfield Enterprise, spent eight weeks rotating across teams in our London office. Our summer internship programme is designed with the purpose of providing a transformative experience, equipping interns with valuable skills and knowledge to enhance their prospects of securing finance or investment roles post-graduation.

Polus also participated in Fairfield Enterprise's "Function of Financial Markets" event, designed to introduce Fairfield's Core Programme candidates to various aspects of the financial markets and enabling them to network with industry professionals.

D&I events

The D&I Committee organised numerous events including a MacMillan cancer research bake sale, a Southside Young Leaders' Academy (SYLA) charity presentation, and a Ladies' lunch on International Women's Day.

Our Local Community

Charitable donations

Polus continues to support charities, aligned with its D&I Committee's objectives. In 2023, we continued to support the following 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 to 16 years 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.
- Fairfield Enterprise
As part of our continued partnership with Fairfield Enterprise, Polus donated towards the Fairfield Enterprise Charity Football Tour.

Volunteering

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

In 2023, Polus' staff volunteered at the following charity event:

- UBS' Global Markets SportInspired Autumn Games Day. The day is designed to work with 200 disadvantaged children aged 7 to 10 years, assisted by 100 volunteers, six local sports clubs and the Young Leader motivational hosts from the Bridge Academy who are aged 14. SportInspired is a national charity, working directly with children from the UK's most deprived communities.



Our Environment

Excluding our financed emissions, we view our environmental impact to be limited, as we are an office-based company with a simple supply chain. We are committed however to measure our carbon footprint and offset any unavoidable GHG emissions resulting from our operations. We continue to consider additional ways to reduce our footprint.

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

Since 2021, Polus works with ClimatePartner to measure the firm's **corporate carbon footprint**.

We completed the measurement of our corporate carbon footprint for 2019, and 2021 to

2023. This includes scopes 1 and 2 and aspects of scope 3, such as staff commuting and business travel.

In 2023, we supported the following three offset projects:

- (1) Solar lamps and water filters for households in India
- (2) Expansion of renewable energy generation across Asia
- (3) Clean drinking water in Laos



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

<https://climate-id.com/en-gb/3Q18ED?year=2024>

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. In 2023, we received our latest PRI scores, which we are incredibly pleased with. Scores are provided for relevant modules. The grading system ranges from 1 to 5 stars, with the lowest grade being "1 star", representing the lower end of responsible investment practices. The highest score, "5 stars", is allocated to leading responsible investment practices. The PRI has also provided us with a median score of peers who are PRI signatories, are based in the same geography and have a similar AUM.

Polus' full score card

Module	Polus module score	Vs the peer median score
Policy Governance and Strategy	4 out of 5 stars (80%)	3 out of 5 stars (62%)
Direct – Fixed Income – Corporate	4 out of 5 stars (87%)	4 out of 5 stars (55%)
Direct – Fixed Income – Securitised	4 out of 5 stars (90%)	3 out of 5 stars (47%)
Confidence building measure	5 out of 5 stars (100%)	4 out of 5 stars (80%)

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.

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.

UN Global Compact (UNGC)



Polus is a participant in the UNGC through its indirect shareholder Mediobanca S.p.A. The UNGC 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 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, payday lending, gambling, 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 strategy 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.

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.

For **Structured Credit**, the investment team systematically integrates material ESG factors into the investment underwriting process and an ESG scorecard is created for each investment, which covers an assessment of the sponsor, the

reference portfolio and structural features of the transaction.

TCFD Reporting

Our climate change report, available upon investor request, has been compiled in line with the recommendations of the Financial Services Board's Task Force on Climate-related Financial Disclosures ("TCFD"). 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.

Polus subscribes to a third-party data vendor to measure the carbon footprint of our portfolios. The investment team is able to collect or estimate the carbon footprint for 100% of our Special Situations' corporate long positions exceeding \$USD 5m exposure and 100% of our Leveraged Credit investments.

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 identifies high-, medium- and low-risk sectors within the portfolio.

These annual assessments are carried out for our Special Situations and Leveraged Credit strategies. For Structured Credit, significant data challenges remain unfortunately.

In Special Situations' control and influence positions, we encourage firms to generate lower GHG emissions and reduce business risks arising from climate change. We track and report on any measurable progress. For example, in the last year, some of our portfolio companies adopted science-based GHG emission reduction targets, validated by the SBTi, and implemented energy efficiency measures, including the use of solar panels and heat pumps.

ESG Engagement

In 2023, we published our ESG Engagement Policy, which can be found on our [website](#).

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 a long-term direct dialogue. Each year, we identify borrowers with low ESG scores across our Leveraged Credit portfolio and approach them with our ESG concerns.

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.

Each year, the Special Situations investment team reach out to all portfolio companies on long positions with an exposure exceeding \$USD 5m. We encourage 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 takes all areas of ESG seriously. 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.

For **Structured Credit**, our ESG engagement will typically consider (i) an analysis of the relevant portfolio, (ii) communication with the originator or servicer and (iii) an analysis of the appropriate alignment of incentives and reporting governance within the structure. For control and high-influence positions, Polus engages with transaction counterparties to drive ESG performance. We look for our counterparty to have an ESG policy aligned with Polus and demonstrate that positive outcomes can be achieved over the position's potential life. For limited influence positions, Polus can, in most cases, have a discussion with the counterparty to understand ESG considerations and, where appropriate, make ESG recommendations. In secondary market transactions, Polus will likely have limited or no scope to discuss ESG factors with the counterparty; however, Polus can still create a price for ESG factors by considering ESG risk and market liquidity.

ESG Training

All members of the investment team have a thorough understanding of Polus' ESG policy and ESG approach. The investment team receive an update whenever there is a significant policy update and following each quarterly ESG Policy Committee meeting.

Where required, additional ESG training is organised by our Head of ESG, or MSCI ESG Research LLC for example, to update the team on sector or regulatory developments.

The most recent ESG training was rolled out in June 2024, which was an online training course for all employees, providing an overview of the latest ESG-related regulatory and market developments.

Internal ESG data management

This year's primary focus is to bolster our internal infrastructure and procedures to enhance the efficiency and effectiveness of collecting, storing and managing our expanding repository of ESG data concerning our portfolio companies. Several teams are involved in this process from the investment team to business development and IT.



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.

In the last year, our Head of ESG participated in several ELFA ESG workshops including:

- (1) with borrowers from the Education sector;
- (2) with ELFA members discussing climate and net-zero topics.

Tina has also been involved in publishing several ELFA Insights reports throughout the year, including:

- a report on climate risk integration and credible corporate climate transition plans;
- a carbon footprint measurement guide for companies and their lenders; and
- a report on nature and biodiversity.



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.

PRi initiative supporting ISSB Standards

Polus participated in the joint statement by the PRI, LSEG and the UN Sustainable Stock Exchanges, calling for jurisdictional adoption of ISSB Standards by 2025. The ISSB Standards are the sustainability reporting standards created by the International Sustainability Standards Board (ISSB) – currently only taken up by corporates voluntarily. These standards would establish a global baseline of sustainability-related financial reporting. For asset managers, to fulfil our reporting obligations on sustainability topics (which are only expanding), we need more corporates to measure and disclose this information to investors in a consistent and standardised manner.

Regulatory consultations

Throughout the year, Polus participated in several regulatory consultations including:

- the FCA consultation on D&I in the financial sector;
- two EU consultations on the implementation of the SFDR; and
- the FCA consultation on UK SDR.

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