

SCHEDULE II

Product name: **Algebris Financial Equity Fund (the "Fund")**

Legal entity identifier: **54930028Y34PLSHRH524**

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?



Yes



No



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



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



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



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



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



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



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



with a social objective



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

Sustainable investment

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

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**.

That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.



Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

What environmental and/or social characteristics are promoted by this financial product?

The environmental and social characteristics promoted by the Fund are:

1. Prevention of predatory lending practices;
2. Pollution prevention and control;
3. Emissions reduction;
4. Human rights; and
5. Labour relations.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Fund.

What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?

The Investment Manager will use the following sustainability indicators to measure the attainment of the environmental and social characteristics promoted by the Fund. Where relevant, the data for assessing the below indicators is sourced from third-party ESG data providers (the “Data Providers”) and internal research.

Key ESG concerns

Characteristic 1: Predatory lending practices

- **Indicator: the share of revenues derived from predatory lending activities.**

Characteristic 2: Pollution prevention and control

- **Indicator: amount of air pollutants in proportion to company revenue and/or the amount of inorganic pollutants in proportion to company revenues.**

Characteristic 3: Emission reduction

- **Indicator: the share of investments in companies that explicitly disclose that they have either committed to setting or have set science- based targets (SBTs) in relation to decarbonisation.**

Characteristic 4: Human rights

- **Indicator: the share of investments in companies involved in very serious violations of human rights under the United Nations Global Compact (UNGC).** For the purpose of this indicator, the Investment Manager defines a very serious violation as the case of a company being: (a) involved in persistent UNGC-related controversies; (b) where the controversy is of critical severity; and (c) where the company is non-reactive. The existence of Human Rights Policies and Commitments at the investee level is also monitored in the context of measuring the attainment of targets monitored.
- **Indicator: the existence of Human Rights commitments, policies and procedures**

at the individual investee level.

Characteristic 5: Labour Relations

- **Indicator: the share of investments in companies involved in very serious violations of labour rights under the UNGC.** For the purpose of this indicator, the Investment Manager defines a very serious violation as the case of a company being: (a) involved in persistent UNGC-related controversies; (b) where the controversy is of critical severity; and (c) where the company is non-reactive. The existence of Human Rights policies and commitments at the individual investee level is also monitored in the context of measuring the attainment of targets monitored.
- **Indicator: the evolution at portfolio level of an aggregate labour practice score.** The score reflects the investees' gender balance; gender pay ratio; performance in terms of preventing discrimination and harassment; freedom of association; ethnic diversity.

Exclusion policies

- **Indicator:** any holdings (0%) of the Fund comprising issuers on the exclusion lists.

Voting policy and engagement

- **Indicator:** the % of meetings voted; the % of shareholders' resolutions voted against; the % of shareholders' resolutions voted in favour; the number of ESG-related engagements with investees.

ESG screening

- **Indicator:** any share of investments (0%) in companies that are identified to be in the bottom 10% of the distribution of the relevant sector's ESG score.
- **Indicator:** the evolution at portfolio level of a global ESG score, as well as of individual E, S, and G scores.

What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?

N/A

How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?

N/A

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

N/A

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

N/A

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.



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

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

The **climate and other environmental** related PAI indicators considered by the Investment Manager in respect to all investee companies are:

- GHG emissions;
- carbon footprint;
- GHG intensity of investee companies;
- exposure to companies active in the fossil fuel sector;
- share of non-renewable energy consumption and production;
- energy consumption intensity per high impact climate sector;
- activities negatively affecting biodiversity-sensitive areas;

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

- emissions to water;
- hazardous waste ratio; and
- investments in companies without carbon emissions reduction initiatives.

The **social and employee, respect for human rights, anti-corruption and anti-bribery** related PAI indicators considered by the Investment Manager in respect to all investee companies are:

- violations of UNGC principles and OECD guidelines for multinational enterprise;
- lack of processes and companies mechanisms to monitor companies with UNGC principles and OECD guidelines for multinational enterprise;
- unadjusted gender pay gap;
- board gender diversity;
- exposure to controversial weapons; and
- lack of anti-corruption and anti-bribery policies.

No

What investment strategy does this financial product follow?

The investment objective, investment policy and investment strategy of the Fund is detailed in the Supplement for this Fund and should be read in conjunction with and in the context of this Annex.

In addition, in the context of its promotion of environmental and social characteristics, the Investment Manager mainly relies on a combination of the following approaches to responsible investment:

- (1) **Key ESG concerns:** the Fund aims to facilitate and accelerate the transition towards a greener and more sustainable economy by investing in companies in the financial services sector that are considered acceptable by reference to the environmental and social characteristics the Fund promotes.
- (2) **Exclusion policies:** the Fund applies exclusion policies to provide reasonable comfort that the Fund does not make or hold investments in industries, market segments and companies considered to have particularly harmful or controversial practices from an environmental or social perspective.

As regards coal in particular, the Fund also applies the following approach: a list of banks that comprise the core universe of the Fund has been identified. The Investment Manager's ESG committee examines each relevant institution's exposure and policies surrounding coal extraction and consumption and, on a case-by-case basis, where relevant public disclosures fall below industry standard or where exposure is thought to be high, a tailored questionnaire assesses the institution's position on coal and any planned action to reduce its coal-related exposure. The Investment Manager's ESG committee engages directly with the same universe of banks, seeking assurance about their controversial weapons involvement and policies.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.



The Investment Manager will not invest in the banks providing the largest share of lending to coal mining.

- (3) **Voting policy and engagement:** Where the Investment Manager is given the opportunity to exercise voting rights in relation to the positions held by the Fund, these are made in the best interests of the investors in the Fund after considering the long-term sustainability of the respective issuer. While abstaining can be the best option in a limited number of cases, the voting policy applicable to the Investment Manager commits it to take an active role, with sustainability being a prime consideration.

When deciding how to exercise voting rights attached to the investments made by the Fund, the Investment Manager will consider voting decisions on a case-by-case basis taking into account: (i) the likely effect on the performance of the Fund's investments; and also (ii) the long-term sustainability considerations of the issuer.

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

On engagement more broadly, the Investment Manager also holds an ongoing dialogue with investee companies. This is typically done in the form of calls and meetings with management, following publication of banks' periodic results or upon presentation of their industrial plans. This direct engagement also spans ESG-relevant themes (e.g. ESG disclosures; climate transition plans; net zero targets). The Investment Manager also actively participates in several investor collective engagement initiatives (such as the Non-Disclosure Campaign led by the Carbon Disclosure Project (CDP)) and may engage with investee companies as part of these initiatives.

- (4) **United Nations Global Compact screening:** the Investment Manager applies screening that evaluates the alignment of investee companies with the 10 Principles of the UNGC. This will exclude investments in companies that are identified as exhibiting a poor performance in business areas relevant to the UNGC principles. In addition, companies whose performance is significantly below average (but above the threshold for immediate exclusion) will be placed on a watchlist.
- (5) **ESG screening:** The Fund is subject to ESG screening, which prevents an investment being made in companies that are identified as being in the bottom 10% of its sector's overall ESG score as measured by way of the Investment Manager's proprietary ESG scoring assessment. This assessment is based on data from third-party ESG data providers (the “**Data Providers**”) and internal research.

These principles are integrated, on a best-efforts basis, into the investment controls where possible and reviewed on a regular basis by the Investment Manager. Where any of the requirements are not met, the Investment Manager will determine how best to liquidate the position(s), if appropriate, or take action to remediate the situation through active engagement with the issuer. The Investment Manager will abstain from investing in similar investments until the identified issue is resolved and the relevant position is no longer considered in breach of the Fund's sustainability criteria detailed above.

- ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

In order to attain the environmental and/or social characteristics promoted, the Investment Manager applies the following binding criteria to the selection of underlying assets as part of its investment decision making process:

(1) Key ESG Concerns:

- a. No investment is allowed in companies that derive any revenues from predatory lending activities; and/or companies that have significant ownership in entities excluded under this rule.
- b. No investment is allowed in companies that derive any revenues from coal mining and/or coal power generation; and/or in companies that have a significant ownership in the entities excluded under this rule. No investment is allowed in debt or equity issued by the top global coal shareholders, bondholders, and lenders as defined in the Investment Manager's exclusion policies and procedures.
- c. No investment is allowed in companies that derive any revenues from exploration-extraction of arctic oil and/or tar sands; and/or in companies that have a significant ownership in entities excluded under this rule.
- d. No investment is allowed in companies that derive more than 40% of their revenues from the production of conventional oil & gas.
- e. No investment is allowed in companies that derive any revenues from the manufacturing of controversial weapons; and/or in companies that have a significant ownership in entities excluded under this rule. No investment is allowed in debt or equity issued by the top global investors in nuclear weapons and cluster weapons as defined in the Investment Manager's exclusion policies and procedures.
- f. No investment is allowed in companies found to be involved in very serious violations of human rights and/or labour rights under the UNGC.

(2) Exclusion policies: the Fund is subject to the Investment Manager's firm- level exclusion policy, including but not limited to the restrictions listed under (1). This policy results in ESG exclusion lists that are implemented in the Investment Manager's internal automated controls system, which include fully integrated pre- and post-trade controls to implement and safeguard the exclusion lists.

(3) UNGC screening: as noted above, in addition to exclusion policies, the Fund is also subject to a screening that evaluates the alignment of investee companies with the 10 Principles of the UNGC. An exclusion list of companies found in breach of the UN Global Compact is compiled by the Investment Manager, and investment in the companies on the list is not allowed.

(4) ESG screening: as noted above, the Fund is subject to ESG screening, which prevents an investment being made in companies that are identified to be in the bottom 10% of the distribution of the relevant sector's ESG score. Investments in such companies are not allowed.

- ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

The Fund does not have a committed minimum rate to reduce the scope of the

investments considered prior to the application of the investment strategy.

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

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

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

- (i) **Sound management structures:** an aggregate performance index reflecting anti-crime policies and processes; business ethics; and corporate governance structure and effectiveness.
- (ii) **Employee relations:** an aggregate performance index reflecting occupational health and safety; human capital development; and talent retention.
- (iii) **Remuneration of staff:** an aggregate performance index reflecting gender pay gap; and CEO to employee pay ratio;
- (iv) **Tax compliance:** an aggregate performance index reflecting tax strategy and governance' effective tax rate; and tax reporting.

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



What is the asset allocation planned for this financial product?

The minimum proportion of the Fund's investments (in normal market circumstances) that will be aligned with the environmental and social characteristics promoted by the Fund will be 70%¹ (taking into account only the binding elements referred to above).

Asset allocation
describes the share
of investments in
specific assets.

¹ For the avoidance of doubt, in the event of high market volatility, the Fund may invest substantially in deposits or other ancillary liquid assets as further detailed under the section of the Supplement entitled "Investment Policy" and such minimum % shall not apply.

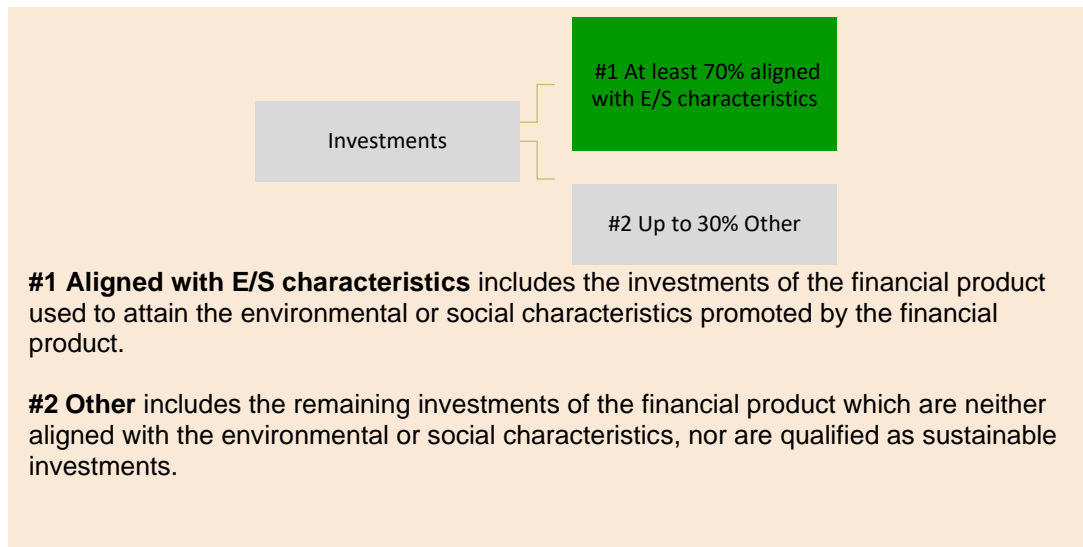
To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

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

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



The remaining proportion of up to 30% of the Fund’s investments will be used for hedging, liquidity, diversification and/or efficient portfolio management purposes and will not incorporate any of the environmental and or social characteristics promoted by the Fund. Any minimum environmental or social safeguards regarding the remaining proportion of the investments is covered in a specific section below.



● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

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

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

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

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy²?**

Yes:

In fossil gas In nuclear energy

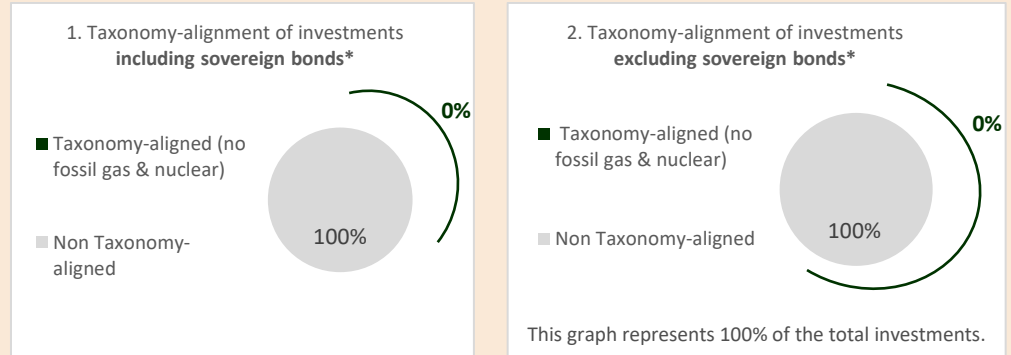
² Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

Taxonomy-aligned activities are expressed as a share of:

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

✘ No

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



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

N/A



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

N/A



What is the minimum share of socially sustainable investments?

N/A



What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

The “#Other” investments made by the Fund include instruments which are used for the purpose of hedging (including currency risk management), liquidity, diversification, and efficient portfolio management. These investments include, but are not limited to, ancillary liquid assets and financial derivative instruments. Whilst these investments may not be aligned with the environmental or social characteristics promoted by the Fund, they will, to the extent possible, still be subject to the exclusion policies detailed above, in addition to the UNGC Screening. These provide the minimum safeguards.

The remaining assets of the Fund will also comprise cash and cash equivalents held from time to time on an ancillary basis, as well as instruments for hedging purposes. Such assets are subject to the Fund’s minimum safeguards, to the extent applicable/ relevant in the context of such assets being cash and cash equivalents.



Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

No specific index has been designated for the purpose of attaining the environmental characteristics promoted by the Fund.

- ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?***

N/A

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

N/A

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

N/A

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

N/A



Where can I find more product specific information online?

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

<https://www.algebris.com/fund/algebris-financial-equity-fund-2/>

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.