LODBROK CAPITAL LLP

UK STEWARDSHIP CODE – ANNUAL REPORT 2022

Introduction

The UK Stewardship Code (the "**Code**") is published and overseen by the Financial Reporting Council ("**FRC**"). The purpose of the Code is to improve the quality of engagement between institutional investors and companies, to help improve long-term returns to shareholders and to promote the efficient exercise of governance responsibilities.

The Code defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The Code consists of 12 principles for asset managers and asset owners that apply across asset classes including listed equity, fixed income, private equity, infrastructure investments, and in investments outside the UK. The Code's principles are supported by reporting expectations which indicate the information that should be publicly reported in order to become a signatory.

During 2022, Lodbrok Capital LLP ("**Lodbrok**", the "**firm**" or "**we**") applied the Code across our investment management activities. This document outlines our response to the Code and the ways in which we discharged our stewardship responsibilities during 2022.

The Code consists of the following 12 Principles, which are addressed in turn by this report.

Purpose and governance

Investment approach

Engagement

Exercising rights and responsibilities

Background to the firm

Lodbrok Capital LLP is authorised by the Financial Conduct Authority ("**FCA**") as a collective portfolio management investment firm.

Lodbrok is the manager to a number of different fund vehicles that primarily invest in European credit opportunities. Lodbrok also offers portfolio management services to certain separately managed accounts ("**SMAs**") that invest alongside the funds managed by Lodbrok as well as offering certain co-investment opportunities to investors. As at 31 March, 2023 Lodbrok manages c$1.4 billion of capital across funds, SMAs and co-investment vehicles.

Lodbrok is a small, closely held firm, consisting, as at 31 March, 2023, of four individual partners, one corporate partner and nine employees, and is led by the firm's founder and Chief Investment Officer (CIO), Mikael Brantberg. Accordingly, the approach we undertake with respect to stewardship matters is proportionate to the size, nature and scale of our activities. In particular, our approach to stewardship is led by the CIO and forms part of the day-to-day activities of our investment team, rather than being constituted by a separate internal function that is responsible for stewardship. These efforts are supported by Kukua, an independent multi-disciplinary and specialist global Sustainability, Environmental, Social and Governance ("**ESG**") and Climate advisory practice, whose methodology and expertise the firm seeks to leverage, and North Peak Advisory, a boutique ESG advisory business. We also obtain ESG data from a third party ESG data service provider, Sustainalytics.

During the reporting period, the firm typically managed a relatively small concentrated portfolio of approximately 20 long-positions and 15 short-positions and in the main takes a long-term investment view with a number of positions being held for between one and three years, although we do have some shorter held investments. Our strategy has a long-hold investment-focus as opposed to being a more typical trading-style hedge fund. This relatively low frequency of trading and focused portfolio enables Lodbrok to build longer-term, constructive relationships with portfolio companies which has assisted with our engagement efforts during this reporting period but does also have the result that opportunities for new engagement activities in relation to stewardship within any given reporting year can be reduced. We remain invested in a number of positions that we held in 2021 and earlier and to which we directed our stewardship efforts during that period. While there are relatively few examples of the firm being required to engage with its portfolio companies year-on-year, during 2022 the firm has sought to build on its points of engagement from 2021 and there have been some notable new engagement opportunities during 2022 which are detailed within this report. Lodbrok is able to tailor its approach to stewardship depending on where it feels it can have the most influence. In previous reporting periods, we had engaged with all of our investee companies through letters (in this particular instance, the letters were to encourage investee companies to make greater ESG disclosure). During the current reporting period, Lodbrok had a focus on areas where it considers it can influence a portfolio company and the firm has continued to make good progress with portfolio companies as set out in this report.

Our approach to investing involves a fundamental deep-dive diligence analysis, similar to private equity style investing, which can take anywhere between three and six months to complete. As part of our initial due diligence, ESG forms a key part of the thesis development for each potential investment and since we undertake this pre-investment we have in effect an early warning process in relation to any potential ESG issues. Lodbrok's analysts utilise Sustainalytics, together with Kukua and North Peak Advisory as appropriate, as well as reviewing documentation and engaging with management or other senior figures, where appropriate, in relation to the investee company's approach to ESG and to identify any areas of potential concern. Our analysts continue to monitor the investee company throughout the life cycle of our investment and utilise both the ESG data service provider as well as engaging with the investee company directly. We have previously explained in earlier reports how we directly engage with investee companies to explain our fundamental approach to ESG and that we proactively seek to engage with investee companies regarding any concerns or to get a better understanding of their approach.

As noted above, we have a relatively low turnover of investments in our portfolio and typically hold investments for between one and three years. It is our view that this approach allows us to analyse any potential stewardship issue and determine the firm's best approach to deal with the concern, having regard to it's capacity and leverage. Following resolution of approach, and the firm's engagement with the investment company, either directly or co-ordinared with other stakeholders, given our medium- to long-term holding period and our relatively limited number of investments, it is typically the case that will we will not be required to address any further stewardship issues in relation to a particular issuer in any given reporting period (or potentially longer).

PRINCIPLES

PRINCIPLE 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Context

Lodbrok was established in 2016 by Mikael Brantberg, Lodbrok's Chief Investment Officer ("**CIO**") and Managing Partner, an experienced investment professional whose previous firms include Farallon Capital Management, Och Ziff Capital Management (now Sculptor Capital Management) and Goldman Sachs.

Lodbrok pursues a fundamental credit strategy and primarily invests in European corporate debt instruments. As part of its credit strategy, Lodbrok aims to identify situations, which generally have fallen from par in the secondary market, where risk is mispriced due to some form of complexity (e.g., unconventional business model, potential balance sheet restructuring or corporate event). These complex situations are often mispriced by the market and seeing through such complexity enables Lodbrok to potentially take a differentiated view of the relevant risk to earn an excess return. The strategy aims to identify situations with an asymmetric return profile backed by a margin of safety which mitigates the risk of a permanent capital loss. The strategy utilises a deep, fundamental and bottom-up research process. Lodbrok aims to achieve a relatively uncorrelated performance to the market by creating a concentrated portfolio of investments, each with a largely idiosyncratic and situation specific return profile. As part of its core strategy, Lodbrok also seeks to short certain securities, which the manager believes are overvalued and may have a significant downside due to company specific issues and/or are sensitive to any market or economic downturn. The hedging of residual risk exposures with market indices may also be utilised.

Lodbrok may invest and trade in a variety of instruments, including corporate bonds, bank loans, asset-backed securities, structured products, mezzanine, credit default swaps, equity instruments, equity indices and financial derivatives.

As a responsible and diligent investor, the integration of stewardship has been an important part of Lodbrok's investment management since inception. Commensurate with its size and investment strategy, Lodbrok is committed to promoting and exercising effective stewardship among the companies represented in the portfolios we manage on behalf of our clients and has displayed this commitment during the reporting period by devoting significant management time to fully implement our Responsible Business, Investment and Stewardship Policy (the "**RBISP**"). We worked closely with Kukua during 2021 to develop our RBISP and have fully implemented it during the current reporting period of 2022.

Consistent with being medium- to long-term investors and alongside our fiduciary responsibilities, Lodbrok's investment approach naturally aims to encourage, cultivate and enhance sustainable business behaviour, including robust corporate governance practices, in the companies in which we invest. Since the firm's establishment in 2016 Lodbrok has sought to, and frequently does, engage with companies within its portfolio, primarily through active dialogue with the boards of companies in its capacity as a bondholder or creditor.

Activity

During 2022, Lodbrok continued to deploy its deep, fundamental, bottom-up approach to research.

It should be noted that we undertake significant due diligence around all ESG topics prior to making any investment and, post-investment, we continue to monitor this aspect of any portfolio company in which we invest on an ongoing basis. This approach has provided us with a detailed understanding of the companies in which we are invested prior to making that investment and gives us the means by which to undertake targeted and effective stewardship efforts (as discussed further under Principle 7). This approach is embedded in the mandate of our investment team, which is overseen by our CIO (as discussed further under Principle 2). During the reporting period, we have implemented this approach in a number of different ways as detailed throughout this report, including successfully seeking appointment to the boards of various portfolio companies (as detailed below) and through our engagement of expert networks to help us better understand stewardship prior to making any investments.

We seek to exercise responsible allocation, management and oversight of our portfolio with a view to the creation of long-term value for clients. As discussed above, as a small, closely held firm our stewardship activities are deployed through the day-to-day activities of the investment team. A significant driver of this diligence is the utilisation of our ESG data provider and undertaking our own focused diligence on an investee company's approach to ESG when considering whether to make any investment. As Lodbrok seeks to take a differentiated approach to the risk and return of investments and because we seek idiosyncratic returns, the firm's culture encourages front office staff to find opportunities to engage with companies, which we did throughout 2022.

Further, during 2022, we have continued our approach of seeking to drive change by engaging directly with companies in which we are or have been invested, seeking to encourage ESG and wider sustainability disclosure to ESG data and research providers and the market generally, as well as to identify any information gaps and address it.

As to specific activities during this reporting period, an excellent example of this approach is through our engagement with one of our investee companies, a Scandinavian beauty business. Through our holding in the business, we sought and obtained board representation. Our view was that the business was underperforming and we raised this at board level. Through this board-level engagement, we have been a key driver in the appointment of three independent industry experts to the board of directors with the stated aim of improving the governance of the company.

Outcome

Our approach to stewardship is a product of our fundamental approach to research. By obtaining a detailed understanding of the companies in which we are invested, which is enhanced where we have board representation, we are able to clearly articulate a strategic view as to their long-term prospects. We are also able to identify risks and opportunities faced by companies and see part of our role as an investor as being to help guide, where appropriate, companies through challenges with a view to the optimisation of their long-term performance. Commensurate with our investment size, it is sometimes difficult to effect change as significantly as we would like but, in certain situations and where our investment size permits, we have been active in seeking out positions on the board of directors in order to promote change in our investee companies.

During 2022, we were appointed to the board of one of our investments and we remain on the board of this investment. The investment is in a Scandinavian beauty business which we made during 2021. Our view was that the business was underperforming and we raised this at board level. Our main concerns were changes in the underlying market for the company's products (a shift away from makeup specific products) and an out-dated strategy. We were instrumental in appointing three independent directors to the business who had the requisite product and industry experience. Indeed, one of the appointees was sourced by us and presented to the board and we were significantly involved in the decision to appoint the other two independent directors. The input of the independent directors has been invaluable and resulted in improved performance of the business creating better value for shareholders as well as attracting other investors to the improved business. The critical input of the three independent directors has been the significant progress on initiatives around developing new brand visual identity, the implementation of a new ERP system, and on managing supply chain issues.

PRINCIPLE 2

Signatories' governance, resources and incentives support stewardship.

Activity

Lodbrok has four individual partners and one corporate partner. The CIO, together with the Chief Operating Officer ("**COO**"), form the firm's Executive Committee. The Executive Committee is responsible for apportionment and oversight of responsibilities of Lodbrok. The Executive Committee reflects a diverse range of professional experience from a range of financial services firms. The Executive Committee and the firm's investment team also consist of a diverse range of individuals with an international background, which the firm considers to be a strength. The firm acknowledges that at present it lacks gender diversity within its senior roles which, in part, is reflective of the firm's small size and low employee turnover. However, during 2021 we addressed this issue in our recruitment at more junior levels and during the 2022 reporting period we have continued our efforts in this regard and will continue to monitor it going forward to ensure our team is sufficiently diverse.

Lodbrok's day-to-day activities are carried out by five front office investment staff, including the CIO, who are responsible for Lodbrok's portfolio management responsibilities. The investment team consists of two junior analysts, one senior analyst, a trader and the firm's CIO. The CIO is ultimately responsible for Lodbrok's investment management decisions.

Lodbrok's COO is responsible for overseeing a robust operational environment, including service providers, financial reporting, risk management, legal and compliance oversight, and for performing those duties properly and independently. The COO is assisted by the firm's General Counsel, the Head of Operations and the Funds' Controller.

The CIO is responsible for overseeing the firm's approach to effective stewardship. The CIO leads the firm's other investment professionals in terms of our engagement with companies within our portfolio. Nonetheless, with the contemporaneous participation and guidance from the CIO, each member of the front office staff is responsible for their own research contributions. Members of the investment team receive 'on-the-job' training, including with respect to matters affecting stewardship and broader ESG issues, including from external resources.

As Lodbrok seeks to take a differentiated approach to the risk and return of investments, and because we seek idiosyncratic returns, the firm's culture encourages front office staff to find opportunities to engage with companies.

In order to strengthen our understanding of a company's ESG profile and assessment of opportunities to exercise stewardship, amongst other measures, the firm has invested in external data resources to assist front office staff. Specifically, the firm has continued its partnership with Sustainalytics as its primary ESG data provider and we have continued with our engagement of Kukua to support our objective of enhancing and strengthening our integration of ESG and wider sustainability factors and to provide an additional resource to our investment team. Kukua is an independent multi-disciplinary and specialist global sustainability, ESG and climate advisory practice and has been retained to provide ESG and sustainability analysis and advice at both the firm and portfolio levels. During the reporting period, we have continued to engage North Peak Advisory to assist us with specific ESG questions or issues that we may face in our investment business.

Building on their initial fundamental research, the investment team evaluate prospective holdings by leveraging the extensive global coverage provided by Sustainalytics and Kukua. In addition, front office staff receive ESG reporting via the Sustainalytics system based on the current and watch-list portfolio holdings. As discussed under Principle 7, the information received from Sustainalytics and Kukua supplements our own fundamental research and information obtained from other sources, such as Bloomberg, which prevents overreliance on any single data source.

Consideration of ESG-related matters is part of the initial investment thesis and is monitored on an ongoing basis. A review of ESG factors is a key consideration in the development of the initial investment thesis by each investment analyst. The investment team as a collective group is notified of any ESG related issue with a position (or potential position) and any necessary action/engagement. Typically, where a potential ESG issue arises during the course of our holding of an investment, the analyst within the firm that is responsible for covering the relevant issuer would raise the concern with the Investment Committee of the Firm.

The Investment Committee will then discuss potential opportunities for engagement with portfolio companies. Decisions relating to the firm’s stewardship approach are noted in the relevant portfolio company’s files by the Investment Committee.

The CIO reports to investors on the firm’s activities by way of the monthly newsletters to investors in the funds managed by Lodbrok. Where relevant, such newsletters may contain information on the firm’s stewardship activities.

As a small, closely held, firm, we consider that our approach to the integration and oversight of our activities, including those relating to stewardship, is proportionate. As the firm’s branding and reputation is closely associated with our CIO, and as our CIO is ultimately responsible for the firm’s investment management decisions, it is appropriate that the CIO has responsibility for the implementation and oversight of our stewardship activities.

As we take the view that stewardship is important in generating long-term shareholder value, and as we seek to be medium to long-term investors in our portfolio, the firm’s approach to stewardship naturally seeks to improve the performance of our investments. Lodbrok is authorised by the FCA as a collective portfolio management investment firm and is therefore subject to both the AIFM Remuneration Code in SYSC 19B and the MIFIDPRU Remuneration Code in SYSC 19G of the FCA Handbook. Accordingly, the firm is required to take into account both financial and non-financial criteria when assessing individuals’ performance, where relevant this may include an assessment of an individual’s contribution to the firm’s stewardship efforts. More broadly, as performance related pay is assessed in a multi-year performance framework, and is linked to present and future risks and opportunities for Lodbrok’s funds, the investment team is incentivised to generate medium to long-term shareholder value.

Outcome

The small size of Lodbrok’s investment team allows our investment professionals to work collaboratively in an environment in which the value of stewardship is understood and encouraged.

Under the CIO's leadership, Lodbrok identifies opportunities for the firm to engage in targeted and effective stewardship.

As discussed under Principle 5, our policies are the responsibility of the COO and are reviewed at least annually. At present, based on the annual review conducted by the COO during the reporting period, the firm is satisfied that the resources made available to the investment team, including internal resources and the services provided by Kukua, North Peak Advisory as well as the provision of ESG data sources by Sustainalytics allow us to achieve our stewardship objectives. More broadly, the nature of our deep, fundamental and bottom-up approach to research gives our investment team a thorough understanding of the companies in which we are invested, thus enabling us to focus on topics for engagement that are most appropriate to that company. This allows us to be thoughtful and targeted in the deployment of our stewardship activities and allows us to realise outcomes, despite our small size.

Further to the enhancements that took place during 2021, such as the appointment of Kukua and the strengthening of our partnership with Sustainalytics, as the firm continues to grow, it is intended that additional resources will become available to support our stewardship efforts. For example, during 2022, we have spent significant time fully implementing our RBISP and worked closely with the investment team to fully integrate our approach across the team. Under the terms of the RBISP, we have established a Responsible Business, Investment & Stewardship Committee which meets regularly (and at least quarterly) to provide oversight of the RBISP.

PRINCIPLE 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

Conflicts of interest can arise in the course of the firm's investment management/advisory business from time-to-time. As part of the firm's stewardship activity and within our overall business, we seek to identify potential conflicts of interest and to mitigate the risks they may pose. As a collective portfolio management investment firm regulated by the FCA, we are subject to an obligation to take all reasonable steps to identify conflicts of interest between: the firm and the funds we manage (or the investors in the fund); two funds that we manage (or investors in the funds); a fund that we manage (or investors in the fund) and another client of the firm; or two of our clients.

The members of our Executive Committee recognise that conflicts of interest may arise in our business, including in respect to stewardship, and we have established and implemented a clear policy to identify and to manage any such conflicts, as well as the governance mechanisms that underpin our approach. When a conflict of interest arises, we will endeavour to ensure that the conflict is resolved fairly and in an equitable manner that is consistent with our duties to the funds we manage, investors in our funds, and our other clients. Our conflicts policy is appropriate to our organisation and the nature, scale and complexity of our business. Our conflicts policy is supported by clear lines of responsibility and all staff receive training in respect of conflicts of interest. In addition, all staff are required to give a periodic undertaking confirming compliance with the firm's compliance procedures, including in respect of inside information and market abuse, confidentiality, outside business interests, personal account dealing and policies relating to the receipt of gifts, benefits and entertainment.

The relationships among the various fund vehicles managed by the firm and other client accounts are complex and dynamic and as the firm's business changes over time, the firm may be subject, and the funds and accounts may be exposed, to new or additional conflicts of interest. Conflicts may arise as a result of the following non-exhaustive list of matters:

- fund vehicles and client accounts managed by the firm may have competing interests, including where the similarity of investment objectives, programs, strategies and positions results in competition for investment opportunities. Such conflicts could affect the prices and availability of securities in which the funds or accounts invest. The firm seeks to allocate investment opportunities among funds and accounts on a fair and equitable basis;
- investments may be purchased or sold on the basis of aggregated orders between funds or accounts, with subsequent allocations made by the firm in accordance with its allocation policy. When orders are not aggregated, trades will generally be processed in the order that they are placed. Trades for one fund or account may receive more or less favourable terms than another fund or account;
- the firm may give advice or take action with respect to the investments held by, and transactions of, funds or accounts that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of another fund or account. As a result, the respective funds and accounts may have substantially different portfolios and investment returns;

- the firm may make decisions on behalf of a fund or account with respect to matters where the interests of the firm or one or more other fund or account differ from the interests of the fund or account in question;
- the firm may have varying compensation arrangements in place among the various funds and accounts;
- the time and effort of the firm's staff will not be devoted exclusively to the business of any one fund or account but will be allocated between the respective funds and accounts;
- the CIO and employees of the firm may be appointed to serve as directors or advisory board members of certain portfolio companies or other entities (whether compensated or not);
- the CIO and staff of the firm may be personally invested in the funds or accounts in differing proportions;
- subject to internal compliance policies and approval procedures, staff of the firm may engage, from time-to-time, in personal trading of investments, including investments in which the funds or accounts may invest; and
- the firm will offer co-investment opportunities to investors or clients at its own discretion and co-investment opportunities may not be offered to all investors in a fund or account.

When identifying conflicts of interest, our staff will consider, amongst other factors, whether Lodbrok:

- is likely to make a financial gain, or avoid a loss, at the expense of a client (including the funds managed by the firm and the funds' investors);
- has an interest in the outcome of a service or activity provided to a client, or of a transaction carried out on behalf of a client, which is distinct from the client's interest in that outcome;
- has a financial or other incentive to favour the interests of one client or group of clients over another;
- carries out the same business as the client; or
- receives or will receive an inducement from a person other than the client in relation to services provided to the client in the form of monetary or non-monetary benefits or services.

As noted above, we also have regard to the potential for conflicts of interest that could arise when conducting our stewardship activities, including in respect of:

- differences between our stewardship policies and the stewardship policies of investors in funds or our clients, or between our investors or clients;
- business relationships between the firm and the boards of companies in which our funds or client portfolios are invested; and
- directorships in portfolio companies held by members of Lodbrok.

Activity

As always, potential conflicts can arise in the scope of our business. However, as a result of the robust arrangements and mechanisms established by Lodbrok, we were able to prevent the conflict of interest from constituting or giving rise to a material risk of damage to the interests of any client.

These arrangements are set out in the firm's Conflicts Register and focus on ensuring that the interests of clients and investors in the firm's funds are always protected and that the interests of the firm and/or any associated party(ies) are not favoured at their expense.

The firm's conflicts register categorises the various potential conflicts that may arise into the following sub-categories:

- firm – client conflicts
- person – client conflicts
- client – client conflicts
- AIF conflicts
- firm – employee conflicts

Within each of those sub-categories, potential conflict scenarios are set out in detail and these form the basis of the conflicts element of our compliance monitoring programme. This programme is integral to our robust procedures which have ensured that there has not been any actual conflicts of interests arising during the reporting period.

Outcome

In cases where a conflict is not capable of being managed so as to ensure, with reasonable confidence, that risks of damage to client interests will be prevented, the firm will make a disclosure to affected clients. This may only be done as a last resort and after all attempts at mitigating or managing the conflict have failed.

During 2022, Lodbrok was able to avoid any situation where it was not possible to prevent or manage a conflict of interest from causing a risk of damage to client interests. We consider that this evidences that our conflicts of interest policy has operated as intended during 2022; however, to the extent that further conflicts of interest arise in the future where it is not possible to prevent damage to client interests, the firm will consider whether changes to the policy are necessary on an ongoing basis. As discussed under Principle 5, Lodbrok's policies, including its conflicts of interest policy, are the responsibility of the COO and are reviewed periodically, and annually at a minimum. As part of our compliance monitoring programme, during the reporting period we have reviewed and tested our conflicts of interest policies and procedures and no actual conflicts have occurred.

PRINCIPLE 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

Lodbrok continued to remain cautiously positioned throughout 2022 in a market environment where we believe central bank interventions have fostered complacency and poor pricing of risk. In such a market environment, we continued to see a significant and widening bifurcation between credits perceived as simple and those perceived as complex. A heightened aversion to complexity had caused credits perceived as complex to offer wide credit spreads, while credits perceived as simple have continued to tighten significantly following central bank interventions.

At a systemic level, collaboration with other shareholders, stakeholders and policy makers is essential to promoting continued effective functioning of the financial markets and to address the sustainability challenges we face. As part of our investment research, we focus on, amongst other factors, identifying market wide and systemic risks, including those created by sustainability factors.

Lodbrok acknowledges that climate change poses a systemic risk and that, if left unchecked, climate change could lead to the collapse of industries, financial markets or economies. We are a signatory to the United Nations Principles for Responsible Investment ("**UN PRI**") under which we have made a number of responsible investment commitments. It remains Lodbrok's view that, in general, it is better to remain invested in companies that may otherwise have a long-term negative impact on sustainability, so as to be in a position to influence the company to achieve positive sustainability changes. As a result, we have remained positioned in a small number of investments in the oil and gas sector and continue to work with such companies to diversify into alternative energy resources. This is consistent with our concerns about climate change more broadly, but also from a specific concern that for companies and industries historically focused on fossil fuels, future government and regulatory policy changes, amongst other factors, could make the oil and gas sector less profitable and lead to companies holding stranded assets.

As a firm that markets its funds into the European Union under the Alternative Investment Fund Managers Directive (2001/61/EU) ("**AIFMD**"), Lodbrok is obliged to comply with certain requirements under the EU Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) (the "**SFDR**"). As part of its SFDR disclosures, the firm is required to disclose information about its approach to sustainability risks and further information is available from Lodbrok's website. As part of its approach, Lodbrok seeks to monitor emerging sustainability issues that could represent potential market risks or systemic risks.

Lodbrok is a member of the Alternative Investment Management Association ("**AIMA**"), which seeks to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. The firm regularly makes use of resources made available by AIMA to its member firms and the firm supports AIMA's policy initiatives and goals.

The firm continues to aim to identify opportunities for collaboration with policy-makers and other investors on policy engagement topics which are high priorities for protecting systemic integrity and to which insights from its credit focused experience are particularly relevant.

We consider ESG disclosure to be an important and effective method to promote a well-functioning financial system. During the 2021 reporting period, we observed that a number of our investee companies did not make adequate ESG disclosures. As a result one of our focuses was to engage and encourage issuers/borrowers to identify information and disclosure gaps in their communication with ESG research providers and the market generally. We implemented this approach through writing to the boards or other senior management of our investee companies to encourage greater levels of disclosure around ESG topics.

Outcome

As a recently established firm, which is smaller relative to other firms operating in fixed income markets, we acknowledge that our ability to achieve substantive outcomes in relation to market-wide and systemic risks is limited. Nonetheless, given our deep, fundamental and bottom-up approach to research, Lodbrok is well-placed to make valuable contributions to such initiatives that reflect the nuances of private credit markets. The communication set out immediately above is an ongoing process and, in some instances during the 2021 reporting period, following our communication the issue raised has been elevated to senior board level and resulted in a gap analysis being undertaken whereby the company has considered what additional ESG reporting it should undertake.

PRINCIPLE 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

At present, Lodbrok's approach to stewardship is provided for pursuant to a number of related policies, rather than a distinct stewardship policy. This reflects the firm's view that stewardship forms an integral part of the firm's approach to investing and is not a standalone matter. Accordingly, stewardship themes are reflected in the firm's policies on conflicts of interest, best execution, risk management, Responsible Business, Investment & Stewardship Policy, and proxy voting and are identified as part of the funds' and accounts' investment strategy documents. This ensures that stewardship permeates throughout our investment analysis at all stages of the investment cycle.

Lodbrok's policies are the responsibility of the COO and are reviewed periodically, and annually at a minimum, and the COO provides internal assurance regarding the firm's approach to stewardship.

The COO has regard to the stewardship outcomes achieved by the firm and, in consultation with the CIO, will consider whether any modifications or improvements to the firm's approach to stewardship can be made, including in relation to evolutions in market trends and standards, governance practices, public policy developments and to ensure our reporting is fair, balanced and understandable.

During the previous reporting year (2021), and as set out in our stewardship report for the previous reporting year, in order to support our objective of enhancing and strengthening our integration of ESG and wider sustainability factors into our investment process and to provide an additional resource to our investment team, the firm evaluated a number of different ESG consultant providers and, following due diligence and an interview process, Kukua were formally engaged (as discussed in last year's report under Principle 2).

During 2022 we have continued to work closely with Kukua on a number of ESG topics, including working with them to improve our coverage of existing and new investments in relation to stewardship and ESG matters. Lodbrok has now fully implemented its RBISP, which it developed and finalised and reported on during 2021, in consultation with Kukua. This implementation has built out and formalised our approach to stewardship (amongst others) and we have successfully achieved a number of stewardship outcomes during this reporting period, as discussed elsewhere in this report. Under the terms of the RBISP, we have established a Responsible Business, Investment & Stewardship Committee (the "**Committee**") which meets regularly (and at least quarterly) to provide oversight of the RBISP. The Committee provides internal assurance regarding the Firm's approach to its RBISP, and its broad responsibilities include (but are not limited to):

- updating and reviewing the appropriateness of the Firm's RBISP and ensuring it accurately reflects the Firm's Sustainability & ESG values and approach;
- providing oversight and management of the Firm's RBISP and ensuring the underlying constituents are applied consistently; and

- ensuring the Firm is best placed to respond to changes in the marketplace, investor demands, developments in regulation, standards, governance practices and public policy, as well as any internal drivers.

As detailed in our 2021 report (and it remains equally applicable for 2022), the COO and CIO were satisfied that the firm's approach to stewardship was appropriate taking account of the firm's stewardship goals and was proportionate to the firm's size, internal organisation and the nature, scope and complexity of its activities. However, as discussed below, the firm determined that whilst the firm's policies and procedures were satisfactory, it was appropriate to change the emphasis of its stewardship towards a more activist strategy.

Outcome

As highlighted above, the engagement of Kukua during 2021, the continuation of this engagement during 2022, and the subsequent review of our policies has resulted in the formal development and integration of our broad RBISP which intentionally goes beyond our previous ESG policy and broadens our focus and review in this area.

During 2022, the firm continued to take an activist stance with respect to its investments in order to enhance the outcomes achievable through stewardship and engagement with companies in its portfolio. In particular, as described herein, the firm continues to seek to engage with issuers/borrowers on matters relating to corporate governance with a view to enhancing the long-term performance of such companies and, as a result, the performance of the firm's investments. During 2022, we have engaged with one of our investee companies on significant governance concerns at board level. We have written letters to the board of directors and engaged in follow-up correspondence expressing our concerns relating to the need to appoint independent directors to the board and giving shareholders the opportunity to vote on any related party transactions. Further, we have, working with another shareholder, undertaken due diligence on potential candidates for the role of independent director at the company and nominated our preferred candidate for election. Our discussions remain ongoing but one of the outcomes this year was that we voted against re-election of certain board members at the company's AGM.

Further, as set out in our response to Principle 1, we have a nominee on the board in a Scandinavian beauty business. In our view the business was underperforming, and we were therefore the driving force in appointing three independent directors to the business (indeed one of the directors was independently sourced by us). The input of the independent directors has been invaluable and resulted in improved performance of the business. This is a clear example of how our implementation of our RBISP has increased our focus on governance issues and it is now front and centre of our investment decisions, as well as post-investment where we have an impact on management.

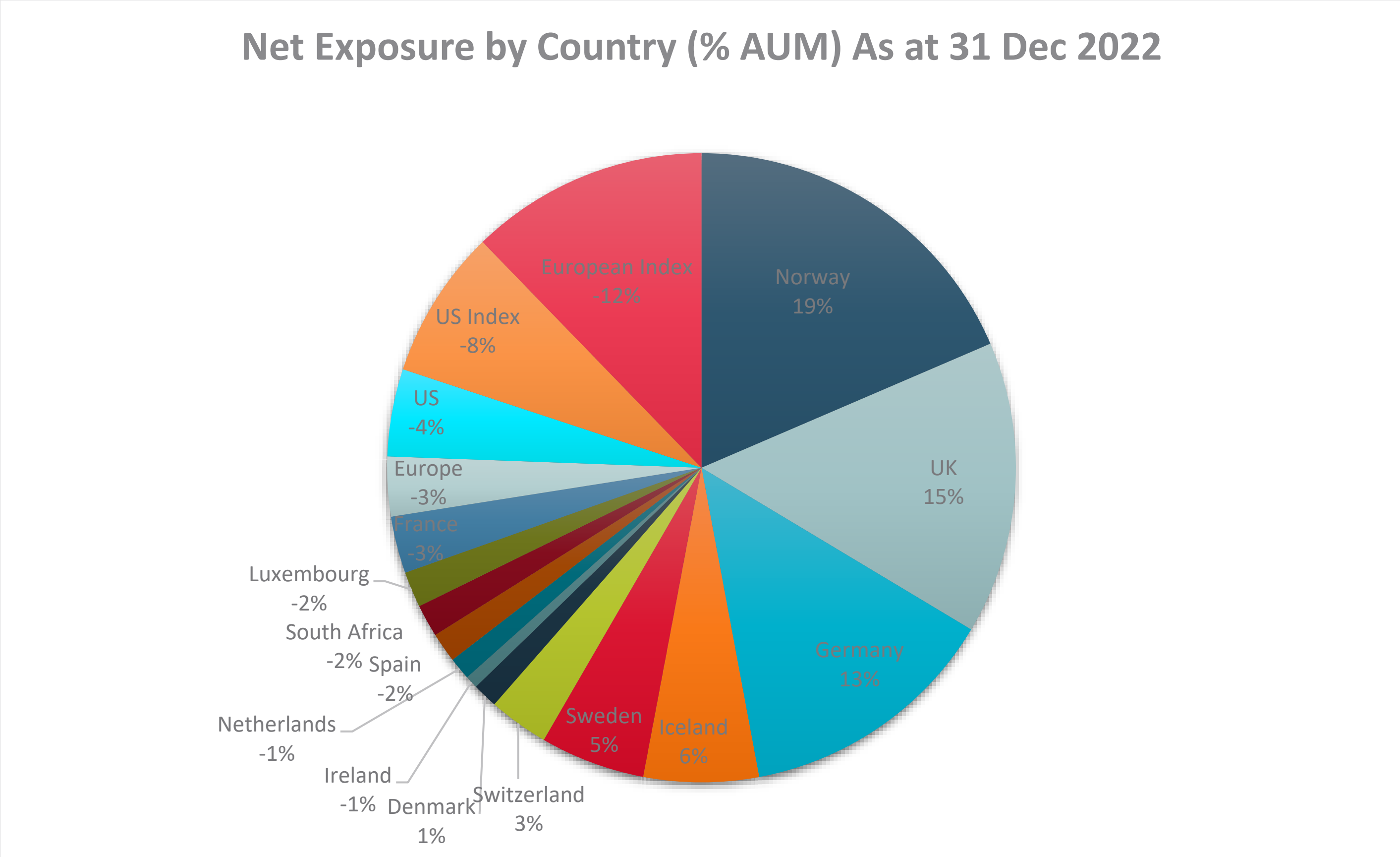
PRINCIPLE 6

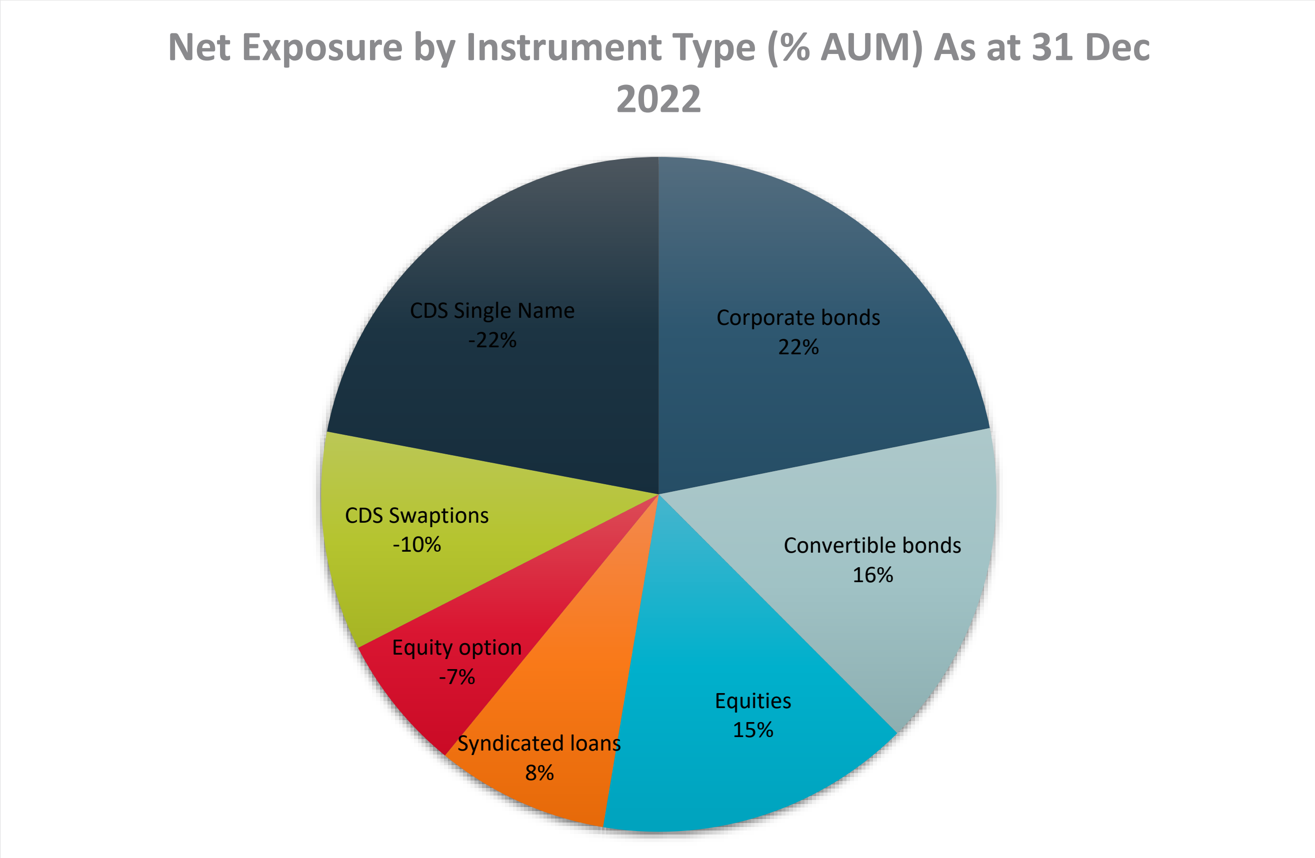
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

The funds and accounts managed by Lodbrok are invested in exclusively by 'professional investors' (as defined under the UK and EU MiFID frameworks). Lodbrok does not currently offer any investment opportunities to retail investors. Lodbrok's investor base is drawn primarily from European jurisdictions and North America.

Lodbrok's funds and accounts may invest and trade in a variety of instruments, including, corporate bonds, bank loans, asset-backed securities, structured products, mezzanine, credit default swaps, equity instruments, equity indices and financial derivatives. Such investments may be acquired through the use of leverage. The firm aims to achieve a relatively uncorrelated return profile of its funds' and accounts' portfolios by creating a diversified set of investments, each with a largely idiosyncratic and situation specific return profile. The firm invests in this broad range of instruments in order to enable it to express its view as to the performance of the relevant issuer. Given the differing characteristics of these instruments and the specific situations the firm may invest in, the investments will be held with different time horizons, as appropriate to the view that the firm is seeking to express through its use of the relevant instrument. However, the firm will typically invest in bonds with a two-to-three-year maturity, typically having an expected take out event in less than two years, with a view to realising a gain from its position as the price of such bonds 'pulls to par' the bond approaches its maturity date. As at 31 December 2022, the overall portfolio managed on behalf of the firm's funds and accounts reflected the following geographic breakdown (note that the below represents the country of risk) and instrument breakdown. In both cases, long and short positions have been netted and entries showing negative numbers represent net short positions with respect to issuers/instruments in that category.


Net Exposure by Country (% AUM) As at 31 Dec 2022
Norway 19%
UK 15%
Germany 13%
Iceland 6%
Sweden 5%
Switzerland 3%
Denmark 1%
Ireland -1%
Netherlands -1%
Spain -2%
South Africa -2%
Luxembourg -2%
France -3%
Europe -3%
US -4%
US Index -8%
European Index -12%


Net Exposure by Instrument Type (% AUM) As at 31 Dec 2022
CDS Single Name
-22%
Corporate bonds
22%
CDS Swaptions
-10%
Convertible bonds
16%
Equity option
-7%
Equities
15%
Syndicated loans
8%

Activity

Lodbrok communicates with its clients through regular monthly investor newsletters that provide information about the investment activities of the firm during the relevant period as well as through discussion of performance information at regular intervals by the CIO with fund and account investors.

Where the firm has engaged in stewardship related activities during the period covered by the investor newsletter, we will provide detail to our investors on such activities (to the extent that we are not otherwise subject to confidentiality obligations, whether as a result of a non-disclosure agreement or for regulatory reasons) and the outcome of our stewardship efforts during that period. As Lodbrok is a credit focused firm, in general, Lodbrok does not hold voting shares in issuers. Accordingly, Lodbrok will not generally have information to report regarding the exercise of its voting rights; however, the firm will describe the outcome of meetings it has with the boards of the issuers within the portfolios of the firm's funds and accounts. Lodbrok may also engage in formal letter writing to boards and, again, will disclose the nature of such efforts and their outcome. Historically, such engagement has been met positively and where appropriate our initial interaction has been escalated to senior management levels. For example, during this reporting period we have also taken a more active role in relation to one of our investments where we had governance concerns, in particular in relation to related-party contracts. We have engaged with the board to discuss our concerns through both letters and conversations and made it clear we would, and indeed did, vote against re-election of the board of directors on the basis of such concerns. We have similarly discussed our concerns with other shareholders to canvass opinion and encouraged their participation in voting against certain proposals put forward by the company. We described our approach to our investors via our newsletter and shared our letter setting out our concerns publicly.

A further example of our activity in relation to this principle during 2022, is where we set out in our August 2022 monthly newsletter to clients of the firm our concerns in relation to an investment in an issuer that operates jack-up and deep water fleets in the contract drilling industry. We raised a number of concerns, in particular around our belief that the investee company had an overly defensive balance sheet and shareholders could be better served by returning some value to shareholders. We referred in the investor newsletter to our letter to the board (which had been made public) and explained what the key themes of our concerns were. We also set out to investors what the company had done in response and set out that this outcome was in line with our recommendation and expectation.

In addition to the above, as part of investors' negotiations with the firm when subscribing for interests in the funds managed by the firm or when establishing a managed account relationship, investors are able to specify particular reporting requirements that they require us to meet, including in respect of stewardship or other matters. Such requirements may be secured through investor side letters or in the terms of a managed account agreement. We will seek to facilitate such investor requests wherever possible and, if agreed, will faithfully comply with such requirements.

Outcome

We consider that, at present, our stewardship reporting is sufficient to meet our investors' needs. As noted above, clients are able to request specific reporting from us regarding various topics, including stewardship.

As part of investors' due diligence of our firm and the products we offer, investors will typically provide us with detailed information requests, including in respect of our approach to stewardship. We seek to engage with such requests comprehensively. Through this process, investors are also able to express their preferences as regards matters including stewardship and we will take such matters into account as far as we are able to, consistent with our fiduciary duties to other investors.

In general, we will have greater freedom to incorporate the specifics of a client's stewardship and investment policies when managing a managed account for that client, as compared to such client investing in a fund managed by the firm. In the context of a fund managed by the firm, investors appoint the firm to manage the collective pool of assets based on the stated investment strategy in the fund's offering documents.

As a result of our activities as set out above, we have received a number of positive outcomes. In both cases, we have opened up a dialogue with senior management to express our concerns and now meet or have a call with management on an *ad hoc* basis. In relation to our specific governance concerns relating to related party contracts set out above with one of our investee companies, our work remains ongoing and we have taken the view that to engage fully, monitor and push for change at the board level is preferable and a better approach to stewardship in this instance than to divest. We are updating our investors through our monthly newsletter as and when there is a development to report.

PRINCIPLE 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

In our role as investment manager, our mandate is to maximise client portfolio returns over the long-term at appropriate risk levels. As a responsible and diligent investor and as part of our fiduciary role, we believe that ESG and wider sustainability factors can affect the performance of the credit instruments in which we invest for an investment portfolio.

Accordingly, Lodbrok's Sustainability Integration – Investment Methodology as set out in its RBISP, thoughtfully, deliberately and systematically integrates the consideration and management of ESG and wider sustainability factors as appropriate alongside other fundamental metrics throughout its investment process. This includes from the initial idea generation, research and due diligence, to investment expression and on-going activities.

The firm recognises that the integration of ESG and wider sustainability factors into the due diligence and risk management processes is essential to effectively avoid and mitigate certain events that could significantly threaten the value of an investment. Equally, understanding ESG and wider sustainability factors may enable Lodbrok to capitalise on new investment opportunities.

Where consistent with our fiduciary responsibilities, our investment approach aims to encourage, cultivate and enhance sustainable business behaviour, with a particular focus on the promotion of robust corporate governance practices, in the companies in which we invest. This has been a key focus of our RBISP and has driven the majority of our engagement with portfolio companies during this reporting period.

This includes companies' adherence to international standards and conventions such as the UN Global Compact (https://www.unglobalcompact.org/what-is-gc), ILO Conventions (https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm), and OECD Guidelines for Multinationals (http://www.oecd.org/corporate/mne/), as well as compliance with national legislation.

As noted under Principle 9, our investment focus is on European credit opportunities, and so the companies in which we invest are European issuers. Owing to the way in which our funds and accounts are structured and managed, these companies are held in the portfolios of all of our funds and accounts. As such, while topics for engagement may differ between sectors, given that we deal with European companies, our approach to stewardship is broadly similar across all of the investments held by our funds and accounts and we will follow the same process when determining which issues to engage with companies on.

Consistent with an integrated approach we do not have a separate ESG team and, as noted under Principle 2, the CIO is responsible for overseeing the firm's approach to effective stewardship, including in respect of ESG related matters; nonetheless, with the contemporaneous participation and guidance from the CIO, each member of the front office staff is responsible for their own research contributions.

To further support this and ensure robust governance, during the 2022 reporting period Lodbrok established a Responsible Business, Investment and Stewardship Committee (the "**RBISC**"). The RBISC has been established to oversee and take responsibility for the firm's RBISP, including, amongst other things:

- updating and reviewing the appropriateness of the RBISP and ensuring it accurately reflects the firm's ESG and wider sustainability values and approach;
- providing oversight and management of the RBISP to ensure the underlying constituents are applied consistently; and
- ensuring the firm is best placed to respond to changes in market-place trends and developments, investor demands, evolutions in regulation, standards, governance practices and public policy developments.

We periodically monitor whether our policies and procedures are suitable for our purpose and since the RBISC was drafted during 2021, there have been no further updates to the policy during 2022. We will continue to revisit this during the next reporting period.

As noted under Principle 4, as a firm that is subject to the SFDR, the firm is required to disclose information about its approach to sustainability risks and further information is available from Lodbrok's website. For these purposes, sustainability risk means an ESG event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

As discussed under Principle 9, the firm's view is that, in general, it is better to remain invested in companies that may otherwise have a long-term negative impact on sustainability, so as to be in a position to influence the company to achieve positive sustainability changes.

Activity

It is a pre-condition of any investment consideration, that all publicly available information in relation to ESG and wider sustainability matters are reflected and reported as part of the firm's investment due diligence and monitoring, subject to the provisions of our funds' offering documents and the investment management agreements for our managed accounts and, as noted above, Lodbrok's fiduciary duty to maximise returns for the fund investors.

Prior to making any investment we take fundamental deep-dive diligence analysis, similar to private equity style investing, which can take anywhere between three and six months to complete. ESG is central to our thesis development at this stage of the investment cycle and we focus on ESG at this stage to consider both investments we would decline on an ESG basis and understand what changes we would like to see implemented if we viewed the opportunity as an investment we would still like to pursue. We see this critical process as an early warning system in relation to any potential ESG issues. The key tools for our analysts are our ESG data service provider, Sustainalytics, together with Kukua and North Peak Advisory as appropriate, as well as reviewing documentation and engaging with management or other senior figures, where appropriate, in relation to the investee company's approach to ESG and to identify any areas of potential concern whilst simultaneously providing an opportunity for us to explain our approach to ESG to any potential investee company.

Relevant and 'material' ESG issues are analysed on a case-by-case basis and the overall decision-making process will be holistic with fundamental financial analysis being supplemented, where appropriate, by ESG and other non-financial factors. Material issues are defined as those matters deemed by the CIO and investment team, in consultation with Lodbrok's external ESG advisors, the Risk Committee and RBISC of the firm where appropriate:

- to have or to be reasonably likely to have a positive or negative financially-significant impact on the financial condition or operating performance of a company; or
- to have or to have the potential to have a direct substantial impact on an organisation's ability to create, preserve or erode economic value as well as environmental and social value for itself and its stakeholders.

As part of this process, the firm will have regard to the fact that its typical investment period is two to three years in bonds issued with a two-to-three-year maturity, typically having an expected take-out event in less than two years. Accordingly, the firm will consider the nature of the ESG and wider sustainability risks that could have an impact on the companies in which the firm is invested during this time period. In general, this means that the firm has a greater focus on matters associated with corporate governance issues, which can erode value for investors on a short-term basis if sufficiently acute.

Whilst investment decisions *per se* are the decision of the CIO in the first instance, in line with the firm's risk management process, investments deemed not to be consistent with the firm's ESG philosophy and approach as informed by its research and due diligence (including on ESG and wider sustainability factors), reports and alerts from the firm's external ESG data sources, will be considered by the risk committee, with the determination of the firm's Risk Manager being final and conclusive as regards the appropriateness of continued investment by the accounts managed by the firm in the relevant company under discussion.

Our investment team is responsible for maintaining constructive dialogue with investee companies and interacting with the boards of portfolio companies when appropriate to engage boards on topics that include relevant and material sustainability issues as well as traditional business-related matters. Stewardship and engagement with our portfolio companies across all levels provides us with the opportunity to promote positive corporate behaviour, develop stronger long-term relationships and enhance our company-specific research.

The topics raised with management teams relate to any area identified as material to the business and sector in which it operates. Our investment team may seek to engage management teams following public disclosures or on topics related to business strategy or corporate governance that arise as part of our investment process. We also seek to engage with a wide range of stakeholders to monitor developments at investee companies.

As an important part of our ESG due diligence process, the investment team will review potential or new holdings in co-consultation with the extensive global ESG coverage provided by the firm's external ESG data sources, including Bloomberg and Sustainalytics and supplemented by Kukua and North Peak Advisory. In particular, the firm has access to web-based tools that provide research, ratings, real-time updates, search functionality and analytical tools to help assess risks, if any, in relation to the investment target. Information may also be made accessible to the firm on a consultancy basis and through online research, screening tools and alerts. ESG issues screened for include human rights, labour rights, environmental impact, corruption, and health and safety. The information that we receive via Sustainalytics is tailored to our ESG preferences and is linked to the investments held by the funds and accounts, providing us with an ESG score for investments in the portfolio and enabling us to receive relevant alerts when the ESG status of one of our investments changes. This information supplements our own fundamental research which may itself reveal ESG related matters. In general, we have found that our own research corroborates the findings of the external ESG data sources that the firm has access to.

From time-to-time, the firm also makes use of expert networks when researching an investment. In general, material ESG topics that relate to such investments will be discussed with these experts and the firm will present targeted questions on these topics. As part of the engagement of such experts, the firm will provide clear and actionable criteria to such experts (and/or the expert network coordinator, as relevant) to support the firm's integration of stewardship and investment, including material ESG issues.

We also engage proxy advisors to keep us informed of upcoming votes in respect of shares that we hold. Although we may receive advice from the proxy advisor as to how to vote the shares, the decision as to how to vote is the responsibility of the investment team. Proxy advisors are made aware of the firm's preferences with regard to our stewardship priorities and ESG approach. Consideration will be given to both the short and long-term implications of the proposal to be voted on when considering the optimal vote. At times, Lodbrok may determine it is in its clients' best interests to abstain from voting. Notwithstanding the foregoing, Lodbrok generally votes in favour of the management of companies for which the proxies are being voted. Whenever Lodbrok does not vote in favour of management, or abstains from voting, the rationale for such decision will be documented.

Outcome

Following a decision to invest, our investment team is expected to regularly review the ESG profile of the invested company and provide an update as may be necessary, typically using information provided by our external ESG data providers. As part of this process, data on the firm's portfolio is used to facilitate relevant alerts to be highlighted in cases where changes to a company's ESG status arises.

During the 2021 reporting period, the firm actively engaged with companies in which it is invested taking a dual approach with a view to enhancing such companies' ESG focus at both the firm level and the product or industry in which it operates. For example, we engaged with a portfolio company to encourage it to explore new renewable sources of energy and move away from traditional fossil fuels, whilst at the same time, interviewing and recommending four out of six candidates for a new board of directors of the company (including a female chair). In terms of the exploration of new renewable energy sources and a move away from traditional fossil fuels, we have seen the portfolio company begin to diversify and consider solutions to reduce their carbon footprint. The female chair has now been formally appointed and we are actively discussing further diversification of the board with the portfolio company and expect to report further outcomes after subsequent shareholder meetings.

In other instances, our stewardship process (including through engagement with boards and in proposing and carrying votes at company AGMs) has enabled the firm to secure positive progress towards ESG and wider sustainability outcomes, including in respect of corporate governance, gender diversity within company boards, and climate change. This has meant that we have been able to retain our investments in companies where the potential for poor ESG outcomes may otherwise have had a negative impact on the long-term performance of our investments to the detriment of our investors.

During the 2022 reporting period, a good example of the successful integration of our process was around our investment in a silicon manufacturer which began in 2017 (and is described in more detail below in Principle 10). During our due diligence and initial investment, no ESG issues, and in particular no corporate governance concerns, were identified. As part of our systemic process we have integrated into our investment cycle, our continuous review identified potential issues initially when a number of senior leaders with significant experience at the company, departed from the company and the chosen replacements were at the nomination of one shareholder. Further, our analysis identified a significant supply contract made between the company and the shareholder (which, going forwards, was for a product which we viewed as being lucrative for the company and under this related-party contract, the shareholder would acquire the vast majority of the company's future production). Our analysts became aware of this issue during our ongoing monitoring of the company as part of our investment cycle and, after consultation amongst the investment team and our CIO, it was decided to initially raise this topic with the board of the company. Since we did not receive a satisfactory rationale for the decisions of the board, we ultimately raised the issue publicly through letters to the board which evoked significant interest from other shareholders who held similar views. We voted against the proposals at the relevant shareholder meeting, as did other minority shareholders who had raised their concerns. The example highlights that we have a methodology in place which is designed to not only identify concerns prior to investment, but also to effectively identify and highlight concerns throughout the life-cycle of our investment.

PRINCIPLE 8

Signatories monitor and hold to account managers and/or service providers.

Activity

We do not currently employ any sub-advisors to manage the assets of our funds or accounts or any investment consultants to provide investment recommendations to the firm. All management is conducted by Lodbrok's investment team under the leadership of the CIO.

The firm may, however, from time-to-time, employ experts with subject matter expertise to provide analysis in respect of investments, including in relation to ESG issues. Experts that are appointed by the firm are required to report to the investment team and the CIO, who are responsible for monitoring the performance of such experts and for understanding and interrogating the experts' findings. The firm will, where appropriate, provide feedback on the value provided by the expert to the relevant expert network.

As part of the investment process, Lodbrok divides the evaluation of ESG and wider sustainability factors into two equally important parallel sections – informative screening and analysis – with issues analysed on a case-by-case basis using input from external data providers.

As discussed under Principle 2, in order to strengthen our understanding of a company's ESG and wider sustainability factors we have partnered with Sustainalytics, Kukua and North Peak Advisory, providing extensive global coverage. The investment team will evaluate prospective holdings leveraging Sustainalytics, Kukua and North Peak Advisory.

Information may be made available on a consultancy basis and also through the relevant provider's online research, screening tools and alerts. ESG issues screened for include human rights, labour rights, environmental impact, corruption, and health and safety. These external ESG information sources help to corroborate the findings of our investment team as part of their fundamental analysis of investments.

We employ proxy advisors for the purposes of monitoring voting opportunities for the firm. We may receive recommendations from the proxy advisor as to how to vote our shares; however, the decision as to how to vote is the responsibility of the investment team. We provide proxy advisors with information about the firm's preferences with regard to our stewardship priorities and ESG approach. When we provide a proxy advisor with instructions as to how to vote our shares, we will monitor that the votes are cast in accordance with our instructions.

Outcome

The firm's external ESG data sources are provided on the basis of yearly subscription models and the firm will constantly review the value of these services, including to ensure they continue to provide quality research, as well as against other services offered by alternative providers.

As part of our ongoing review of providers, as conducted during 2022, we concluded that our ESG service providers are adequate for our needs and for a firm of our size.

Our external ESG data platform has become an important part of our investment process and is used on a day-to-day basis by our investment team.

PRINCIPLE 9

Signatories engage with issuers to maintain or enhance the value of assets.

Activity

Lodbrok pursues a credit strategy and primarily invests in debt instruments and credit derivatives in a variety of jurisdictions globally. We aim to identify situations where risk is mispriced due to some form of complexity. This focus on complexity requires us to adopt a deep, fundamental and bottom-up approach in our research process. We view engagement with companies in our funds' and accounts' portfolios as being a key part of our research and monitoring processes that enable us to achieve outcomes that are consistent with our fiduciary duties and that are in the best interests of our investors.

As part of Lodbrok's investment process, it may choose to engage with a company (or other related entity), including on any material ESG and wider sustainability considerations identified, in order to maintain or enhance the value of an investment, amongst other objectives.

Lodbrok views engagement with companies (on both stewardship issues and other material factors) in its portfolio as being a key part of its fundamental analysis and on-going review that support it to achieve outcomes that are consistent with our fiduciary duties and that are in the best interests of our investors.

Our approach to engagement with companies is assessed on a case-by-case basis. The responsibility for determining our engagement strategy sits with the CIO, who, in conjunction with the investment team will develop an engagement strategy, which may be based on the findings from its fundamental analysis.

Engagement topics are chosen to, for example, support developing Lodbrok's knowledge, obtain additional information as part of its ongoing investment assessment and monitoring of risks and opportunities, understand a company's strategy and its long-term prospects, or to influence change and help assist achieving sustainable outcomes and which may be either bilateral or in cooperation with others.

As such, chosen topics may vary depending on a range of factors, which may include, the circumstances of the company and prevailing market conditions. The firm will seek to respond to emerging risks, as well as undertake norms based and incident driven engagement with companies. Engagement forms part of both our fundamental analysis and on-going review of the portfolio. We maintain a log of meetings held with companies and our proxy voting provider maintains a record of all votes cast. Lodbrok may also decide to engage on issues that are considered material and integral to its duty to act in the best interests of its investors.

When prioritising our engagement efforts, the investment team and CIO will take into account the size of Lodbrok's investment in the company (both in absolute terms and as a proportion of the company's securities), the company's sector and relevant best practices for that sector, the perceived significance of the engagement topic that has been identified, and the expertise available to Lodbrok in respect of the engagement topic (both internal and external) and its perception of its own ability to influence the decision making of the relevant company, amongst other factors.

During 2022, Lodbrok's engagement continued, where relevant, to be directed to companies' management teams and boards; we held meetings with management; and we wrote letters to companies to raise concerns. We also continued to seek to interact with third parties including suppliers, customers, industry specialists and other stakeholders where applicable. We have also sought to guide investee companies, in particular smaller or less-experienced companies in the capital markets. This has been an ongoing process due to the nature of our investments and our longer term holdings in investee companies. In general, Lodbrok focuses its engagement on companies that are within its investment portfolio, rather than target companies. At present, in private credit markets, information is generally only provided to current (rather than prospective) investors. Unfortunately, this makes it difficult to productively engage with companies in which Lodbrok is not invested.

It should be noted that each investment analyst typically only covers up to 20 companies (including those in which Lodbrok is invested and those which are on our watch-list). This means that the investment team can develop a thorough understanding of the companies in which Lodbrok invests or may invest in, therefore enabling the investment team to focus on topics for engagement that are most appropriate to that company and in respect of which it thinks that its engagement will lead to actionable change, amongst other outcomes.

Please see Principles 10 and 11 for further details on Lodbrok's approach to engagement and escalation process respectively.

Outcome

During 2022, Lodbrok has engaged with several investee companies to maintain or enhance the value of assets. In one instance, we wrote a detailed business analysis including suggestions for realising shareholder value and submitted it to the board of one of our investee companies. This has been an ongoing process with multiple letters and discussions with the board of directors. Our input included significant analysis of the company and its competitors to seek to influence them in a way which would maximise value for all shareholders through a series of potential strategic options and corporate events. Our engagement has been welcomed by the board of directors and the final outcome of our discussions remains ongoing at this stage.

We also advised the board of one investee company with limited experience of the capital markets on the form and content of investor communication that we as an investor, and others, require and find particularly useful. We worked with the company to encourage best practice as it sought to increase external third party funding. We particularly explained to the company the requirement to be clear and not misleading around forward-looking statements. During the discussions we offered constructive guidance to the company which has been taken onboard and they have updated their disclosure accordingly.

Separately, we have an investment in a food production company and we have engaged with the company throughout a difficult period of sustained interest rate increases. After significant discussions with the company, we decided to implement an amend and extend loan agreement in order for the company to successfully navigate liquidity concerns in this environment.

More generally, our engagement efforts and the positive responses to them have meant that we have been able to retain investments in companies where the potential for poor ESG outcomes may otherwise have had a negative impact on the long-term performance of our investments to the detriment of our investors.

PRINCIPLE 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity

We continue to be an investor that typically holds credit positions in issuers, and as such we will generally have limited voting rights in our portfolio companies. We therefore recognise the value of collaborative engagement and the ability of coalitions of stakeholders to exert pressure and achieve positive change with respect to issuers. Prior to engaging in any collaborative engagement, we will carefully consider the potential legal or regulatory issues implications of any such conduct.

Lodbrok will customarily act on its own when engaging with a company to express any concerns, as its view as to a company (and the opportunities for strategic engagement) may not always be shared by a broad group of stakeholders.

As such, Lodbrok tends to engage with companies on an individual basis and finds that personal, direct conversations with management teams and boards are often the most effective, subject to any compliance concerns.

Nonetheless, depending on the engagement objectives and where necessary and appropriate, Lodbrok may participate in collaborative engagement and, indeed, Lodbrok has previously worked together with groups of noteholders and written to a portfolio company to express serious concerns relating to the financial state of the portfolio company and the need to undertake a comprehensive deleveraging of its balance sheet. Lodbrok recognises the value of collaborative engagement and the ability of coalitions of stakeholders to exert pressure and achieve positive change with respect to issuers. During 2022, we have also made public our letters to the boards of certain public companies where we have felt that other shareholders may share our view and elect to vote alongside us at a company's annual general meeting.

Lodbrok will review proposals for collective engagement initiatives on a case-by-case basis, alongside other criteria such as the size of its investment, wider investment characteristics, the sector and any relevant best practices therein, the perceived significance of the engagement topic that has been identified, the expertise available to it in respect of that engagement topic (both internal and external), and any perceived collective ability to influence an outcome.

Any decision to undertake collective engagement will be discussed in the first instance with the CIO and the COO to ensure that concert party issues, and other regulatory issues can be considered in advance of any decision to act collectively.

More broadly, as discussed under Principle 4, the firm is a signatory to the UN PRI and is a member of the Alternative Investment Management Association.

Notwithstanding the value of collaborative engagement, given our investment approach seeks to focus on complexity, requiring a deep, fundamental and bottom-up approach in the research process, Lodbrok's view as to a company (and the opportunities for strategic engagement) may not always be shared by a broad group of stakeholders.

As described in Principle 6 above, Lodbrok has been invested in a silicon manufacturer since 2017 and after we published our letter to the board of directors in 2022, we received a number of inbound queries from other shareholders in the silicon manufacturer, suggesting that they have similar views and concerns to ours and that they too would vote against the proposals put forward by the company and its board of directors. We initially had concerns over the dismissal of the company's interim CEO during a crucial time for the company, together with a number of other senior management departures. We became increasingly concerned once we became aware of certain related party contracts involving a production facility and a significant shareholder with board representation. As per our usual engagement process, after internally discussing with our legal and regulatory teams, we engaged where appropriate with the issuer and conveyed our thoughts. We explained in the letter to the board our concerns regarding related party contract approvals and that the board should be more representative of the shareholder base. We also proposed a creditable alternative independent candidate with substantial expertise and experience in the company's markets after undertaking significant diligence and conducting an appropriate search.

Outcome

In reference to the above case study, ultimately, on this occasion, the vote was passed but we raised the matter publicly to ensure the board of directors of the company fully considered our concerns. We made it clear to the board of directors our thoughts on the issue but, as a responsible investor, we have remained invested and continue to closely monitor developments at the company with regards to, amongst other items, corporate governance and will continue to raise the issue at the appropriate time and forum in the future.

PRINCIPLE 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

Consistent with our approach to fundamental, bottom-up research, Lodbrok seeks to be a comparatively long-term investor in its portfolio companies (around two-to-three-years). We therefore endeavour to develop strong long-term relationships with our portfolio companies. Notwithstanding that we will normally invest in companies' debt rather than equity, we feel that our views are taken seriously by the management and boards of the companies with which we engage. As noted above under Principle 9, our investment focus is on European credit opportunities, and so the companies in which we invest are European issuers for the most part. Owing to the way in which our funds and accounts are structured and managed, these companies are held in the portfolios of all of our funds and accounts. As such, while topics for engagement (and ultimately escalation) may differ between sectors, our approach to engagement and escalation is generally the same across all of the investments held by our funds and accounts and we will follow the same process when determining whether an issue requires escalation.

Thankfully, because we seek to invest in businesses with high standards of governance and experience, we find that escalation of our engagement is not frequently required. However, seeking to act in the best interests of our investors and as part of our fiduciary duty, in certain circumstances, if engagement does not lead to the desired change or a satisfactory response, we may consider taking further measures subject to applicable law and other considerations. Such circumstances may include where:

- a management team is unresponsive to repeated engagement over an issue which is material to our investment case;
- a company was not responding appropriately to our concerns; and/or
- a company was failing to appropriately manage risks or opportunities.

In these circumstances, the firm may then seek to engage in a more focused dialogue with a view to addressing any problems head-on. Further measures could include:

- being increasingly assertive;
- engaging with other stakeholders to highlight the seriousness of issues, where appropriate;
- directing a question at an Annual General Meeting ("**AGM**");
- filing a shareholder resolution;
- voting against management;

- calling an extraordinary meeting;
- reducing a position in a holding; and/or
- overweighting or underweighting holdings.

Ultimately, Lodbrok does not have any restrictions on the escalation measures it may seek to leverage and may ultimately consider it is better to reduce or exit an investment if this would be in the best interests of its investors, rather than to continue the dialogue.

We are mindful, however, of applicable regulatory considerations around such discussions with management and take care not to become an 'insider', where possible, so as not to restrict our ability to trade out of our investment in the company should this become necessary. We may also seek to engage with other stakeholders to highlight the seriousness of issues, where appropriate. Where we are an equity shareholder, we may also choose to vote against management or propose shareholder votes at company AGMs. Ultimately, if we cannot get comfortable with the company's approach, we may sell our investment if this would be in the best interests of our investors.

As with our approach to engagement generally (as discussed under Principle 9), when determining whether to escalate a particular issue, the investment team and CIO will take into account the size of Lodbrok's investment in the company (both in absolute terms and as a proportion of the company's securities), the company's sector and relevant best practices for that sector, the perceived significance of the topic that has been identified, the expertise available to Lodbrok in respect of the topic (both internal and external), and our perception of our own ability to influence the decision making of the relevant company.

The clearest example of escalation in relation to an ESG (and specifically a corporate governance) concern is in relation to a silicon manufacturer as set out in more detail above in Principle 10. The conduct causing our concern occurred after our initial investment but once identified by our analysts, we initially discussed our concerns on a number of occasions privately with the board of directors. Our concerns are detailed in Principle 10, above. As we became increasingly aware that our concerns were not being addressed we elected to raise them publicly and we received significant inbound interest from other shareholders who held similar views.

Outcome

The outcome of our escalation activity in relation to our investment in a silicon manufacturer remains ongoing. We have now made our view known directly to the board of directors both in private and publicly and continue to monitor the situation closely with regards to next steps and will be able to report in more detail in our submission for the next reporting period.

PRINCIPLE 12

Signatories actively exercise their rights and responsibilities.

Context

As a credit focused firm, in general, Lodbrok does not typically hold significant voting rights in its portfolio companies. In circumstances where investments are less successful than we would have liked, there are, however, instances where we acquire a small equity position in that particular investee company. As discussed throughout this report, we acknowledge our responsibility to our investors to undertake effective stewardship in the companies in which we are invested. We also acknowledge our broader social responsibility when engaging with companies on ESG and wider sustainability related matters. Voting is one way of signalling our views on corporate governance matters and holding a board to account. However, voting is not the only means by which to achieve positive stewardship outcomes. As detailed above, we seek to engage directly with company boards and management and have found this to be an effective and constructive way to exercise our responsibility to improve long-term returns to shareholders and to promote the efficient exercise of governance responsibilities.

Where we do hold any equity positions, we engage proxy advisors to keep us informed of upcoming votes in respect of shares that we hold. Although we may receive advice from the proxy advisor as to how to vote the shares, the decision as to how to vote is the responsibility of the investment team following appropriate review of the relevant corporate governance issues on a case-by-case basis. The investment team will exercise their best judgement on how to vote given their deep knowledge of the company. Investors in our funds and accounts do not have any ability to direct the firm's voting. Investments are held in common by all funds and accounts. Proxy advisors are made aware of the firm's preferences with regard to our stewardship priorities and ESG approach. At times, Lodbrok may determine it is in its clients' best interests to abstain from voting.

Activity

As noted above, Lodbrok is a credit focused firm. Accordingly, it generally does not hold voting rights. However, where it does exercise its voting rights, Lodbrok generally votes in favour of the management of companies for which the proxies are being voted. Whenever Lodbrok does not vote in favour of management, or abstains from voting, the rationale for such decision will be documented.

We employ proxy advisors for the purposes of monitoring voting opportunities for the firm. When we provide a proxy advisor with instructions as to how to vote our shares, we will monitor that the votes are cast in accordance with our instructions.

Outcome

EXERCISING RIGHTS AND RESPONSIBILITIES

Since Lodbrok is a credit focused firm we do not have many specific examples of us seeking to influence via a voting strategy. Further, we note in the Stewardship Code guidance the request for signatories to set out their approach to: (a) seeking amendments in term and conditions in indentures or contracts; (b) seeking access to information provided in trust deeds; (c) impairment rights; and (d) reviewing prospectus and transaction documents. Lodbrok is not involved at the initial issuance stage of transactions (we operate primarily in the secondary market) and so this is difficult for us to illustrate.

However, during the reporting period, we have had an example of voting against certain proposals at an EGM of a listed company. As a result of significant concerns in relation to corporate governance with a silicon manufacturer (as detailed in our response to Principle 7, above) we publicly explained our position and confirmed to the board of directors that we would not be voting in favour of the proposed resolutions at the investee company's EGM. We explained our reasons to the board of directors and subsequently other minority investees contacted us with similar concerns and they took similar voting positions. We remain invested in this asset and continue to monitor it closely.