LODBROK CAPITAL LLP

UK STEWARDSHIP CODE – ANNUAL REPORT 2020

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.

A revised version of the Code came into effect on 1 January 2020. The revised 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 2020, 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 2020.

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 full scope UK AIFM.

Lodbrok is the manager to a number of fund vehicles that collectively constitute a fund that invests in European credit opportunities. Lodbrok also offers portfolio management services to certain managed accounts that invest alongside the fund.

Historically, as the UK Stewardship Code 2012 was primarily focused on UK listed equities, the UK Stewardship Code 2012 had limited relevance to the firm's investment activities. Therefore, whilst Lodbrok has always been a supporter of the general objectives that underpinned the UK Stewardship Code 2012, the nature of its investment strategy meant that the firm did not normally consider the UK Stewardship Code.

Given the expanded scope of the 2020 version of the Code, Lodbrok made the decision to comply more particularly with the 2020 version of the Code.

Lodbrok is a small, closely held firm, consisting of six individual partners and six 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.

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 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.

Lodbrok is committed to promoting and exercising effective stewardship among the companies represented in the portfolios we manage on behalf of our clients.

Consistent with our fiduciary responsibilities, Lodbrok's investment approach aims to encourage, cultivate and enhance sustainable business behaviour, including robust corporate governance practices, in the companies we invest in. Since the firm's establishment in 2016 Lodbrok has sought to 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 2020, Lodbrok continued to deploy its deep, fundamental, bottom-up approach to research. This approach has provided us with a detailed understanding of the companies in which we are invested 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).

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. 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 2020.

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, 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.

During 2020, our approach to stewardship has been effective. We have been able to achieve a number of positive stewardship outcomes to the long-term benefit of our investors and the companies in which we invested. For example, our stewardship approach enabled us to identify a risk of loss in the event that action was not taken by the company on a governance issue. Despite Lodbrok's attempts to influence the board of this company, we ultimately decided to exit the investment as we could not get comfortable with the company's continuing governance issues as they did not meet our institutional standards. Since exiting the investment, the company's share price and the market price of our previously owned securities has declined substantially. As such, although we are disappointed that we were unable to secure governance improvements, our decision ensured the best outcome for our investors.

PRINCIPLE 2

Signatories' governance, resources and incentives support stewardship.

Activity

Lodbrok has six individual partners and one corporate partner. The CIO, together with Lodbrok's Chief Executive Officer ("**CEO**") and Chief Operating Officer ("**COO**"), forms 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 and its members are drawn from a broad 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; however, the firm has identified gender diversity as a priority going forward.

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 one junior analyst, two senior analysts, 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 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. However, 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 conducting its fundamental research, amongst other measures, the firm has invested in external data resources to assist front office staff in assessing opportunities to exercise stewardship. For example, front office staff receive ESG reporting via the Sustainalytics system based on the current and watch-list portfolio holdings.

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.

The Investment Committee of the firm will discuss potential opportunities for engagement with portfolio companies. Decisions relating to the firm's stewardship approach are noted in the relevant 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 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 full scope UK AIFM and is therefore subject to the AIFM Remuneration Code in SYSC 19B 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 annually. At present, the firm is satisfied that the resources made available to the investment team, including the provision of ESG data sources 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 targeted in the deployment of our stewardship activities and allows us to achieve a lot, despite our small size.

As the firm continues to grow, additional resources will become available to support our stewardship efforts.

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 full scope UK AIFM 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 and we have established and implemented a clear policy to identify and to manage any such conflicts. 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 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 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.

We also have regard to the potential for conflicts of interest to 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

During 2020, Lodbrok identified a number of emerging situations that could have allowed a potential conflict of interest to arise. However, as a result of arrangements put in place 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.

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 2020, 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 2020; 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 are the responsibility of the COO and are reviewed annually.

PRINCIPLE 4

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

Activity

Lodbrok remained cautiously positioned throughout 2020 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 tightened 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 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. And, as discussed further under Principle 9, Lodbrok has sought to use its position as a bondholder in an issuer that drills for oil and natural gas globally to influence the board to diversify into alternative energy resources such as offshore wind farms. This particular investment reflects 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. 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 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 stay on top of 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 aims 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. One of our focuses during 2020, for example, has been on our market-wide and systemic engagement work in private credit markets, including in relation to the availability of information from issuers/borrowers to prospective bond holders or creditors, noting that historically issuers/borrowers typically provide information to current bondholders/lenders, rather than to the market more broadly, which inhibits the proper functioning of credit markets, including in relation to price discovery and risk management.

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. This is why we seek to contribute to broader initiatives led by trade associations and those coordinated across multiple firms. 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.

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, and proxy voting and are identified as part of the funds' and accounts' investment strategy documents.

Lodbrok's policies are the responsibility of the COO and are reviewed annually 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 2020, the firm engaged an external ESG consulting business, which provided advice and feedback in relation to the firm's policies and procedures relating to stewardship and ESG.

In 2020, 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

During 2020, the firm determined that it would take a more 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 has sought 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.

PRINCIPLE 6

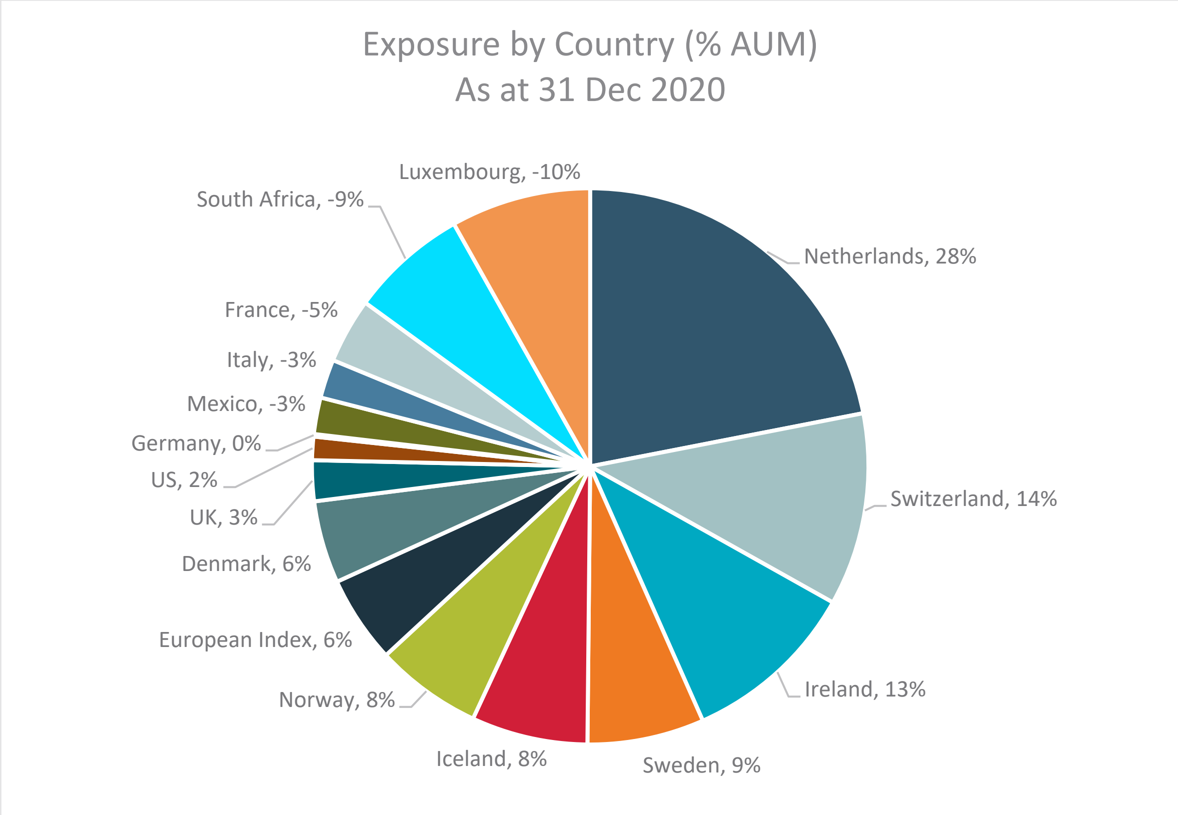
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

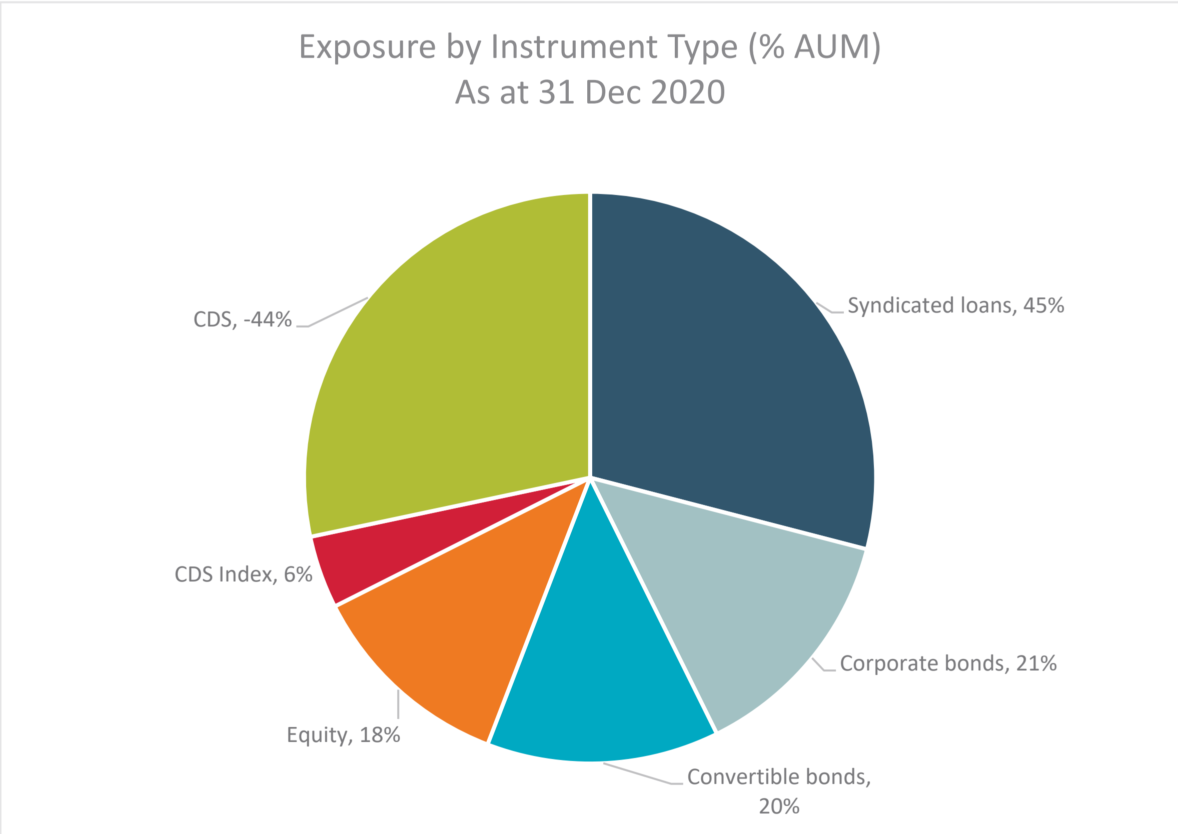
Context

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 2020, 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.


Exposure by Country (% AUM)
As at 31 Dec 2020
Luxembourg, -10%
South Africa, -9%
Netherlands, 28%
France, -5%
Italy, -3%
Mexico, -3%
Germany, 0%
US, 2%
UK, 3%
Switzerland, 14%
Denmark, 6%
European Index, 6%
Norway, 8%
Ireland, 13%
Iceland, 8%
Sweden, 9%


Exposure by Instrument Type (% AUM)
As at 31 Dec 2020
Syndicated loans, 45%
CDS, -44%
CDS Index, 6%
Corporate bonds, 21%
Equity, 18%
Convertible bonds, 20%

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 and CEO 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.

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 lengthy 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.

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. In this fiduciary role, we believe that ESG factors can affect the performance of the credit instruments in which we invest for an investment portfolio.

Therefore, where consistent with our fiduciary responsibilities, the firm's 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 we invest in.

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 the same 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.

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; however, each member of the front office staff is responsible for their own research contributions. 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 a 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 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.

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 Lodbrok's CIO and investment team, in consultation with Lodbrok's external ESG advisors, and the Risk Committee of the firm where appropriate, to have or 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 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 influenced by 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. 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 standing 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 2020, we made the decision to exit a credit investment that we held in a real estate focused asset management business as a result of information we gathered through our stewardship process, including through engagement with the board. Although initial progress was made, we decided to exit our position as we could not get comfortable with the company's lasting governance issues as they did not meet our institutional standards and we had concerns about the long-term impact on the value of the investment we held. Since exiting our investment, the company's share price and the market price of our previously owned securities has declined substantially. As such, although we are disappointed that we were unable to secure governance improvements, our decision ensured the best outcome for our investors.

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 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.

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 an important part of our ESG due diligence process, the investment team will review potential or new holdings in co-operation with our external ESG data providers, including Bloomberg and Sustainalytics utilising their extensive global ESG coverage. Information may be made available on a consultancy basis and also through their 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 assess the value of these services, including as against other services offered by alternative providers. As noted above, the firm's external ESG data sources serve to corroborate the findings of our own fundamental research. During 2020, we were satisfied that the provision of services to support our stewardship and ESG efforts was effective and we have continued our subscriptions into 2021.

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.

As a credit focused firm, a limited number of the funds' and accounts' investments are in equity shares carrying voting rights.

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.

Each investment analyst only covers up to 20 companies (including those in which we are invested and those which are on the firm's watch-list). This means that we develop a thorough understanding of the companies in which we are invested and this enables us to focus on topics for engagement that are most appropriate to that company and in respect of which we think that our engagement will lead to actionable change.

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 will reach a decision based on the input of the investment team. 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).

Engagement topics are chosen to help us to understand a company's strategy and its long-term prospects. As such, chosen topics may vary depending on the particular circumstances of the company and prevailing market conditions and we will develop a particular engagement strategy for each company, based on the findings from our fundamental analysis. 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.

During 2020, Lodbrok's engagement was primarily directed to companies' management teams and boards; we held meetings with management; we wrote letters to companies to raise concerns; and we raised issues through companies' advisors. We also sought to interact with third parties including suppliers, customers, industry specialists and other stakeholders where applicable. 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.

Outcome

During 2020, Lodbrok identified four companies within our portfolio with which we sought to engage. We prioritised these companies on the basis of the clear need for and likely success of target action to address the perceived issue. Given our investment focus on European credit opportunities, the companies we identified were all 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. Our engagement encompassed topics relating to board constitution; conflicts of interest; diversity and inclusion; and climate change.

In respect of three of our engagement initiatives during 2020, we were able to secure positive progress towards ESG outcomes, including in respect of corporate governance, gender diversity within company boards, and climate change.

As set out further under Principles 11 and 12, the firm engaged with the company Aryzta AG in respect of certain governance matters relating to a proposed takeover of the company by a third party. As part of our engagement, the firm expressed certain views in advance of the AGM with respect to the election and re-election of members of the board, and our views were communicated to other shareholders in advance of the AGM. As a result of our engagement, at the AGM the five directors, including the now chairman, that we had voted in favour of were elected, including two new but experienced directors with relevant sector expertise. In addition, shortly after the AGM, the company's board rejected the takeover bid to which Lodbrok had been opposed, on the grounds that the bid would represent an undervaluation of shares and would be a worse outcome for creditors and shareholders, compared to an alternative of asset disposals, simplification and debt repayment, and in respect of which we had expressed our views on the situation through letters to the board.

In another instance, through continued conversations with the board of a company regarding the lack of staff diversity (in particular, with few female staff at the management level), we were able to secure commitments from the company that it would prioritise increased diversity at the management level of the organization in a male dominated industry, while the Board of Directors is now acceptably balanced. We will continue to monitor this situation and will engage with the company on its progress going forward.

Lodbrok is currently invested in an issuer that operates jack-up and deep-water fleets in the contract drilling industry, which drills for oil and natural gas globally. We have sought to influence the board to diversify into alternative energy resources such as offshore wind farms. As such we engaged on opportunities to explore renewable energy as a new market opportunity for a services company historically focused on fossil fuels, with offshore wind as an emerging segment of relevance. We continue to focus on the diversification into renewables and Lodbrok remains actively engaged with the company. We are currently involved in the ongoing board nomination process. This investment reflects 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.

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.

However, as discussed under Principle 7 above, during 2020, we made the decision to exit a credit investment that we held in a real estate focused asset management business as a result of information we gathered through our stewardship process. In that instance, despite our engagement, we were unable to secure a positive corporate governance outcome.

PRINCIPLE 10

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

Activity

As an investor that typically holds credit positions in issuers, we will generally have limited voting rights in our portfolio companies. As such, we 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.

During 2020, Lodbrok co-signed a letter from an ad-hoc group of noteholders to a US-listed, UK headquartered company. The group of noteholders collectively held notes across the spectrum of issuances by the company. The noteholders wrote to the company to express their serious concerns regarding the financial state of the company and the urgent need for the company to undertake a comprehensive deleveraging of its balance sheet.

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 such, we tend to engage with companies on an individual basis and find that personal, direct conversations with management teams and boards are often the most effective.

Outcome

The letter referred to above that was co-signed by Lodbrok ultimately led to a capital restructuring that is currently ongoing. The firm remains engaged with the company as part of this process, and we are hopeful that the goals of the comprehensive deleveraging can be met, to the benefit of the bondholders.

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, in circumstances where a management team is unresponsive to repeated engagement over an issue which is material to our investment case or a company was not responding appropriately to our concerns or was failing to appropriately manage risks or opportunities, then we would then seek to engage in a more focused dialogue with a view to addressing any problems head-on. 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.

Outcome

As discussed above, under Principle 9, during 2020, Lodbrok was engaged with the board of the company Aryzta AG in respect of certain governance matters relating to the composition of the company's board and its position with respect to a prospective takeover bid from a third party. Lodbrok was successful in serving as a catalyst to change the board's composition and, as result of the new strategy for the company, the company's securities have seen an uplift in value. This process required an escalation of our engagement with the company, ultimately leading to certain votes being passed at the company's AGM, following our views having been communicated to other shareholders in advance of the AGM. Initially, we had written to the board expressing our view as to the proposed takeover. As the board were not receptive to our position, we wrote to the company to inform them of our intention to vote against the management on certain matters at the AGM. We were ultimately successful as a result of our escalation; the five directors whose (re)election we voted in favour of, including the current chairman, were (re)elected, and shortly after the AGM, the company's board rejected the takeover bid to which Lodbrok had been opposed.

As discussed above under Principle 7, during 2020, we made the decision to exit a credit investment that we held in a real estate focused asset management business after having escalated our stewardship processes. Although initial progress was made with the board regarding improvements in their governance (relating to the composition of the company's Supervisory Board and payments that had been made to shareholders), we learned subsequently that there were similar governance issues in relation to other large shareholders. We sought to further address the governance issues with management in various meetings; however, as it became clear that the company was reluctant to make further changes, we decided to exit our position as we could not get comfortable with the company's lasting governance issues as they did not meet our institutional standards and we had concerns about the long-term impact on the value of the investment we held. Since exiting our investment, the company's share price and the market price of our previously owned securities has declined substantially. This event highlighted an instance of our engagement and escalation approach operating as intended. Although we are disappointed that we were unable to secure governance improvements, our escalation made it clear that improvements were unlikely to be forthcoming and enabled us to take an informed decision that ultimately ensured the best outcome for our investors.

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. However, 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 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 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.

As noted above, Lodbrok proposed a number of votes at the AGM of one of the issuers in which it is invested. These proposals formed part of the firm's engagement with the company. In the context of a proposed takeover to which we objected on the grounds that the bid would represent an undervaluation of shares and would be a worse outcome for creditors and shareholders, we proposed that for four of nine directors (who were in favour of the takeover) should not be re-elected to the Board. We also nominated two new but experienced directors with relevant sector expertise. Both of these votes were approved by shareholders. Shortly after the AGM, the company's board rejected the takeover bid.

Outcome

During 2020, Lodbrok voted at the meetings of the following companies in which Lodbrok held voting shares:

- REC Silicon ASA – extraordinary general meeting (9 November 2020)
    - Lodbrok voted in favour of all motions. Further details of the motions put to the annual general meeting are available in the minutes of the extraordinary general meeting available at: https://ml-eu.globenewswire.com/Resource/Download/41f11d70-b48e-4aeb-8676-6478bb766fe3
- Aryzta AG – annual general meeting (15 December 2020)
    - As discussed further above, under Principles 9 and 11, Lodbrok had engaged with the company prior to the annual general meeting in respect of a proposed takeover bid, to which Lodbrok was opposed. Following initially unsuccessful engagement with the company, we informed the company that we intended to vote against management in respect of the proposed discharge of the directors for the preceding year. We also informed the company of the five directors of whose (re)election we intended to vote in favour. We voted in favour of all motions with the exception of motion 3 (regarding the existing directors' discharge), which we voted against. Further details of the motions put to the annual general meeting are available at: https://www.aryzta.com/wp-content/uploads/2020/11/2020_AGM-Invite_English.pdf