**Sustainability-related disclosures**

**Danske European Loan Fund II**

**LEI:** 635400SLV7JVO5YTD516
**ISIN:** Not applicable

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|---|---|
| **V.1 Danske European Loan Fund II Website Disclosure** | **07 February 2023** |

Danske European Loan Fund II (the "**Fund**") is an alternative investment fund ("**AIF**") for the purposes of the Alternative Investment Fund Managers Directive (2011/61/ EU) ("**AIFMD**") as implemented in Ireland through the European Union (Alternative Investment Fund Managers) Regulations 2013, as may be amended, updated or supplemented from time to time. The Fund is a sub-fund of Danske Alternatives ICAV (the "**ICAV**"), an umbrella type Irish collective asset-management vehicle authorised by the Central Bank of Ireland ("**CBI**") on 5 January, 2018 pursuant to the Irish Collective Asset-management Vehicles Act 2015, with segregated liability between sub-funds. As of the date hereof the ICAV has one other sub-fund, Danske European Loan Fund I.

Waystone Management Company (IE) Limited ("**Waystone**") acts as alternative investment fund manager ("**AIFM**") in respect of the ICAV. Intermediate Capital Managers Limited (the "**Investment Manager**") has been appointed as the investment manager in relation to the Fund. The AIFM is authorised in Ireland by the CBI. This notice does not constitute an offer or solicitation of interests in the Fund. Interests in the Fund are restricted to Qualifying Investors within the meaning of the CBI's AIF Rulebook. This notice is provided solely for the purposes of compliance with the Sustainable Finance Disclosure Regulation (EU 2019/2088) ("**SFDR**") and shall not form the basis of any contract and shall not be binding against or create any obligations or commitment on the part of Waystone, the ICAV, the Investment Manager or any of their respective affiliates.

**(a) Summary**

This disclosure is made by the AIFM in respect of the Fund and is provided pursuant to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 ("**SFDR**") as supplemented by the Commission Delegated Regulation 2022/1288 of 6 April 2022. This disclosure is intended only as a summary (which is required to be produced by Article 10 of the SFDR) and investors should refer to the ICAV's Prospectus (which includes the Supplement for the Fund) for the Fund's full terms. In case of any discrepancy between this summary and the Prospectus, the Prospectus prevails. Any decision to invest in the Fund should be based on the full terms of the Fund, as outlined in the Prospectus, and not on this summary. Unless otherwise defined herein, capitalised terms shall have the meaning assigned to them in the Prospectus.

The Fund seeks to provide an absolute net return to investors with low volatility and low correlation to other markets. The Fund seeks to achieve this by investing principally in a diversified portfolio of sub-investment grade debt issued by entities globally including leveraged loans, second lien loans, senior secured bonds, floating rate notes and other debt securities. The totality of the Fund's

investment strategy is set out in the Supplement for the Fund and this short description serves only as a summary of that strategy. In the event of a conflict between this description and the full description found in the Supplement, the full description in the Supplement shall prevail.

The Fund promotes environmental or social characteristics: (i) through the use of an exclusion list (the "**Exclusion List**); and (ii) considering information gathered, through a proprietary ESG Screening Checklist prior to making an investment decision (the "**ESG Assessment Process**").

The Fund may make one or more "sustainable investments" within the meaning of Article 2(17) of SFDR, but it does not commit to make any such investment. The Fund does not have sustainable investment as its objective.

The Fund has not set a minimum proportion of its investments which will be used to meet the promoted environmental and social characteristics of the Fund.

Owing to the mandatory list of Excluded Investments (see section (c) below) and ESG Assessment Process (see section (c) below), except for certain derivative financial instruments (which the Investment Manager uses to manage the Fund's currency and interest rate risks) and collateralised loan obligation investments, the Investment Manager anticipates a minimum of 80% of investments made by the Fund will meet the environmental and/or social characteristics promoted by the Fund.

The Fund will principally monitor the attainment of its promoted characteristics through its sustainability indicators and will undertake pre-investment information collection exercises using relevant sources which include third party and self-reported investee company data. In some instances, the Fund may need to use estimates or proxy data. See section (i) for further detail on data limitations.

Good governance practices of investee companies are assessed both pre-investment and as part of ongoing monitoring. The nature and depth of the assessment depends on the type and structure of the investment and other factors such as the availability of relevant information. Before making investments, the Investment Manager will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances known at that time. When conducting due diligence and making an assessment regarding an investment, the Investment Manager will rely on the resources available to it, including information provided by third parties, including in some circumstances, third-party investigations and due diligence conducted by certain other affiliated funds, vehicles or accounts. See section (h) below for full detail on data sources.

## (b) No sustainable investment objective

This Fund promotes environmental or social characteristics, but does not have as its objective sustainable investment.

## (c) Environmental or social characteristics of the financial product

The Fund promotes the following environmental and/or social characteristics:

1. ***Excluded Investments:***

The Investment Manager applies a negative screen in order to exclude certain investments from its portfolio that the Investment Manager views as inherently prone to having the most significant adverse environmental and/or social impacts on the environment and society.

The Investment Manager will not knowingly make direct investments in any of the following businesses. These are referred to as the "**Excluded Investments**":

- which directly manufacture, distribute or sell anti-personnel landmines, (ii) nuclear, chemical or biological weapons or (iii) cluster bombs or munitions;
- where 20% or more of total revenue arises from the direct manufacturing of arms, ammunition or tobacco;
- which systematically use harmful or exploitative forms of forced or child labour; or
- which generates 50% or more of its revenue in aggregate from:

  (i) coal exploration, extraction, production, transportation, power generation, distribution and/or storage;

  (ii) oil exploration, extraction, production, transportation, power generation, distribution and/or storage; and/or

  (iii) gas exploration, extraction and/or production.

***2. ESG Assessment Process:***

The Investment Manager has created a proprietary ESG Screening Checklist. The ESG Screening Checklist currently consists of 27 mandatory questions across the following themes: high risk sectors, bribery and corruption risk, country risk, reputational risk, climate risk, ESG maturity, and the extent to which the primary products and services of the proposed target company contribute to any United Nations Sustainable Development Goals. The Investment Manager may update the ESG Screening Checklist from time to time but will always apply it in a standardised, consistent manner. The Investment Manager will make reasonable efforts to obtain all the information required under the ESG Screening Checklist (noting that it is possible that not all relevant information will be available for all proposed investments). The Investment Manager will consider such information for each proposed investment prior to making an investment decision (the "**ESG Assessment Process**"). The Investment Manager applies the ESG Assessment Process for purposes of evaluating the environmental and/or social impacts of investments.

**(d) Investment strategy**

<u>Investment strategy used to meet the environmental or social characteristics promoted by the Fund</u>

The Fund seeks to provide an absolute net return to investors with low volatility and low correlation to other markets. The Fund seeks to achieve this by investing principally in a diversified portfolio of sub-investment grade debt issued by entities globally including leveraged loans, second lien loans, senior secured bonds, floating rate notes and other debt securities. The totality of the Fund's investment strategy is set out in the Supplement for the Fund and this short description serves only as a summary of that strategy. In the event of a conflict between this description and the full description found in the Supplement, the full description in the Supplement shall prevail.

The Investment Manager prior to investment and thereafter at least annually (i) assesses the Fund's portfolio to identify any Excluded Investments; and (ii) monitors current investments through the ESG Screening Checklist. Due to the illiquid nature of the investments meeting the Fund's investment strategy, the Investment Manager is unable to commit to divesting any investments that become Excluded Investments or would not meet the ESG Assessment Process after the initial investment by the Investment Manager.

<u>The policy to assess good governance practices of the investee companies, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance</u>

The Investment Manager adheres to a Good Governance Policy (the **"Policy"**) which is used in relation to all potential investments to ensure that good governance is being followed within the potential investee company or issuer.

Under the Policy, the following four core pillars are highlighted as being central to the Investment Manager's assessments of good governance (and are the focus of pre-investment and ongoing due diligence): sound management structures, employee relations, remuneration of staff and tax compliance. In respect of each of the core pillars, Investment Manager will seek information on a selection of key good governance metrics most relevant to the underlying investment as part of pre-investment due diligence. Examples of such metrics that may be considered, where deemed relevant by the Investment Manager, include:

- **sound management structures:** board composition, independence and oversight, board gender ratio, risk and crisis management, anti-bribery and corruption ("**ABC**") and financial crime policies and procedures;
- **employee relations:** policies and procedures regarding human rights, occupational health and safety, employee grievance mechanisms, and whistle-blowing; and
- **remuneration of staff:** compliance with minimum wage requirements, board / senior management remuneration policies, gender or other diversity pay gap practices and/or information; and
- **tax compliance:** applicable tax compliance or tax risk management policies and procedures, operations in non-cooperative tax jurisdictions, governance and audit processes for tax returns.

Other alternative and/or additional and/or fewer metrics or enquiries may be used where deemed appropriate by the Investment Manager.

The Investment Manager will consider any evidence of incidents, violations or allegations in respect of the above good governance core pillars that are considered to be so serious or persistent that they suggest an ongoing failure of good governance.

During the investment lifecycle, the Investment Manager carries out ongoing monitoring. The monitoring practices are tailored to the investment nature and type.

The selection of and subsequent assessment of the relevance and weighting of the above metrics will vary according to the size, sector and geographic location of the company, issuer or asset. It will also vary based on the evidence and information available to investment teams both in respect of the above listed key metrics as well as any wider governance and/ or ESG factors uncovered separately as part of investment due diligence. As such, no one metric will be determinative on its own and some judgement will be required to consider these both in the round and in the wider context of the transaction when reaching a good governance assessment finding both pre-investment and as part of ongoing monitoring.

For the avoidance of doubt, the Policy will not apply to certain investment classes, such as investments in sovereign and supranational entities (including government bonds and securities) or derivative financial instruments that the Investment Manager causes the Fund to enter into for hedging, liquidity and cash management purposes.

The Fund will only make investments where it is concluded by the Investment Manager in good faith, that:

- immediately prior to the investment, the investment demonstrates good governance practices; or

- where an investment demonstrates partial alignment with good governance practices immediately prior to the investment, the Investment Manager reasonably assess that it will be possible to remedy any deficiencies in good governance practices with the support of the Investment Manager. However in the case of the corporate debt-type investments contemplated by this Fund, the Investment Manager would be unlikely to invest in such circumstances under the Policy, as corporate debt instruments (or other instruments with a similar profile in the company's or issuer's capital structure) are unlikely to enable the Investment Manager to influence or encourage such remedial action.

Where the Investment Manager determines, in good faith, that the pre-investment due diligence or ongoing monitoring under the Policy demonstrates evidence of material and ongoing good governance failures and the Investment Manager would be or is unable to influence remedial action, the Investment Manager will decide not to invest or (in a post-investment scenario) take steps to divest the investment, insofar as feasible, and all other routes to remedial action are exhausted. The manner and rate of divestment may, in some cases, be subject to how liquid the investment is.

**(e) Proportion of investments**

The Fund has not set a minimum proportion of its investments which will be used to meet the promoted environmental and social characteristics of the Fund. An investment will be treated as "#1 Aligned with E/S characteristics" where:

1. the investment is not an Excluded Investment; and

2. the Investment Manager has considered information gathered as a part of the ESG Screening Checklist prior to making an investment decision.

Owing to the mandatory list of Excluded Investments and ESG Assessment Process, except for certain derivative financial instruments (which the Investment Manager uses to manage the Fund's currency and interest rate risk) and collateralised loan obligation investments, the Investment Manager anticipates a minimum of 80% of investments made by the Fund will meet the environmental and/or social characteristics promoted by the Fund.

In its investment policy, the Fund has both direct and indirect exposures to investee entities. Both direct and indirect exposures may align with the environmental and/or social characteristics promoted by the Fund, but the Fund has not set proportions in its investment policy between the types of asset classes that the Fund may use to acquire direct or indirect exposures to investee entities. The Fund may have indirect exposure through asset backed securities, such as collateralised loan obligations, to which the environmental and/or social characteristics promoted by the Fund are not applied. It is not currently practical based on the information available to apply the ESG Assessment Process to such indirect investments and there may be indirect exposure to Excluded Investments.

**(f) Monitoring of environmental or social characteristic**

The sustainability indicators for the Fund are:

| Promoted characteristic | Sustainability indicator |
|---|---|
| 1. Excluded Investments | The percentage of value of investments held at the Accounting Date which have passed the negative screen for Excluded Investments. |
| 2. ESG Assessment Process | The percentage by value of investments held at the Accounting Date where the Investment Manager considered the information gathered as a part of the ESG Screening Checklist before making its investment decision. |

Prior to investment, the Investment Manager: (i) assesses whether an investment should be excluded as an Excluded Investment; and (ii) considers the information gathered to assess whether a proposed investment under the ESG Assessment Process should, even if not an Excluded Investment, nevertheless still be excluded due to having significant adverse environmental and/or social impacts on the environment and society. The Excluded Investment and ESG Assessment Process promoted characteristics are measured by the sustainability indicators listed for those characteristics above.

The Investment Manager carries out the relevant pre-investment due diligence for this Fund's promoted characteristics as per the methodologies detailed in section (g) below. Section (h) also details the related internal and external control mechanisms.

The Fund's portfolio is monitored annually in order to ensure that no investments have become Excluded Investments. The Investment Manager will also reapply the ESG Assessment Process as part of annual monitoring of the Fund's portfolio.

**(g) Methodologies**

**Pre-investment process:** The Investment Manager will use the data sources detailed in section (h) below to assess whether a proposed investment is an Excluded Investment or not. The Investment Manager will use those data sources to assess proposed investments in accordance with the ESG Screening Checklist (which currently consists of 27 mandatory questions across the following themes: high risk sectors, bribery and corruption risk, country risk, reputational risk, climate risk, ESG maturity, and the extent to which the primary products and services of the proposed target company contribute to any United Nations Sustainable Development Goals). Exclusion screens are conducted on the basis of information available about the underlying company and its activities (typically financial reports and/or management presentations provided by the company or its placement agents), to determine that the specified thresholds in the Exclusion List are not met. Once the ESG Screening Checklist is completed, the data is compiled in a standard investment committee report and analysed by the Investment Manager's investment team. Should the Investment Manager require further information, additional due diligence is conducted. Depending on the results, the investment may or may not be submitted for the ultimate investment decision by the Investment Manager's investment committee.

**Ongoing monitoring:** The Fund's portfolio is monitored annually by the Investment Manager to ensure that no investments that have been made by the Fund in the portfolio have become Excluded Investments and the ESG Screening Checklist is re-applied. The percentage of value of investments held at the end of the reporting period which have passed the negative screen for Excluded Investments and where the Investment Manager considered the information gathered as a part of the ESG Screening Checklist before making its investment decision is reported in the Fund's periodic reporting.

**(h) Data sources and processing**

<u>Data sources used to attain each of the environmental or social characteristics promoted by the Fund</u>

The Investment Manager obtains pre-investment data through a combination of sending questionnaires to investee companies, data rooms compiled by investee companies, arranger banks and their advisers and obtaining information from third party specialist providers. In some cases where data is not available or accurate, reasonable assumptions may be made, or estimated or proxy data used.

<u>Measures taken to ensure data quality</u>

The Investment Manager will, where relevant and appropriate, consider taking steps to follow-up and query data with investee companies and compare data obtained from third parties and self-reported data against historic data and comparable industry and sector data. The questionnaires sent to investee companies utilise established reporting methodologies to ensure consistency of how data is reported. Once data is received from investee companies, spot checks are preformed to ensure accuracy.

Where data is not reported by investee companies, this is clearly indicated; or in the case of greenhouse gas ("**GHG**") emissions and climate metrics, a proxy is modelled by a third party provider utilising a range of investee company specific inputs such as revenue, key countries of operations, and sector; and regression analysis based on a number of years of historic data of peer companies that publicly report their emissions. Proxy data is only utilised for scope 1 and 2 GHG emissions, and is used as an interim measure in the absence of actual data. For other gaps in reported data – the Investment Manager will engage with an investee company to request measured data. Trend analysis is also performed by the Investment Manager to spot anomalies in data obtained in respect of an investee company.

<u>How data is processed</u>

The data is used in the pre-investment assessments set out in section (c) above, put forward to the investment committee of the Investment Manager and, where appropriate, used in relevant calculations pertaining to the promoted characteristics and metrics of the Fund. Records are kept of all investment decisions of the Investment Manager in line with regulatory requirements.

<u>Proportion of data that is estimated</u>

In some instances, the Fund may need to use estimates or proxy data. Where estimated data is used it will be based upon reasonable assumptions and appropriate comparators. The Investment Manager will act reasonably in using estimated or proxy data. As the use of such data will vary on a case-by-case basis, it is not possible to provide an exact proportion of estimated data.

**(i) Limitations to methodologies and data**

As detailed in section (g) above, the Investment Manager's investment team is responsible for proposing investments to the investment committee of the Investment Manager. The investment team makes its own assessment of whether the proposed investment meets the environmental and social characteristics promoted by the Fund. Where the investment team are not satisfied that an investment does not meet these requirements, the investment team may decide not to put forward the proposed investment to the investment committee.

Multiple data sources may be used in relation to the Fund's promoted characteristics and sustainability indicators. The primary limitations relate to data gaps where the nature/location of an investment may mean that there are no or limited obligations to collect, publish or provide ESG data by the investee company; the reliance by the Investment Manager on self-reported data; and, the use by the Investment Manager of assumptions or estimates / proxy data in some instances. Even where published/provided, such data may not be of a sufficiently high-quality or may be incomplete or otherwise inaccurate. The Investment Manager may also be required to rely on data provided by third-party providers which cannot be verified. These limitations are not considered to materially limit the monitoring or attainment of the promoted characteristics as the data is generally subject to internal and external checks (such as comparison against previous data periods or other comparable investee companies), self-reported data is usually provided in a timely fashion and the

Investment Manager will engage with portfolio investments and third party data providers where appropriate (e.g. if data is inaccurate, incomplete or needs other validation). Where estimated data is used it will typically represent the minority of data used by the Investment Manager and will be based upon reasonable assumptions and appropriate comparators.

**(j) Due Diligence**

Potential investee companies are diligenced to assess whether they would be Excluded Investments. Further, the due diligence includes the reasonable efforts by the Investment Manager to complete the ESG Screening Checklist to assess whether an investment is inherently prone to having the most significant adverse environmental and/or social impacts on the environment and society. These are in line with the promoted characteristics detailed in sections (e) and (f) above. As set out in section (h) the due diligence carried out on the underlying assets of the Fund includes providing questionnaires to potential investee companies and review of responses, as well as review of data rooms compiled by potential investee companies. The Investment Manager may also obtain and review information from third parties as part of the due diligence process, which is further detailed in section (h).

The ESG Screening Checklist currently consists of 27 mandatory questions across the following themes: high risk sectors, bribery and corruption risk, country risk, reputational risk, climate risk, ESG maturity, and the extent to which the primary products and services of the proposed target company contribute to any United Nations Sustainable Development Goals.

The Investment Manager also seeks information on a selection of key good governance metrics most relevant to the underlying investment as part of pre-investment and ongoing due diligence in accordance with its Good Governance Policy. See the full detail in section (d).

The Investment Manager's investment team uses this information to carry out an assessment of proposed investments and decide whether or not to recommend an investment to the investment committee of the Investment Manager. The Investment Manager's investment team is required to consult with the Sustainability & ESG team if significant ESG risks are identified. Prior to making investment decisions, the investment committee considers the investment team's analysis of the proposed investment's data in relation to the Fund's promoted characteristics and the Good Governance Policy.

**(k) Engagement Policies**

The Investment Manager does not seek to engage with investee companies as, considering the investment-types envisaged in this Fund's investment strategy, it is unlikely to have the relevant influence in the investee company's capital structure. However, the Investment Manager will engage with the investee companies annually to gather information for the ESG Screening Checklist and as required under the Good Governance Policy (see full detail in section (d)).