

CAPITAL FOUR

Capital Four CLO Management K/S

Per Henrik Lings Allé 2, 8th floor
2100 Copenhagen Ø
CVR no. 40 86 47 25

Annual Report 2020

16 October 2019 – 31 December 2020

This annual report has been adopted
at the company's annual general
meeting on, the / 2021

Chairman of the meeting:
Berit Birkemose Schnack



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Limited partnership details

Capital Four CLO Management K/S

Per Henrik Lings Allé 2, 8th floor

2100 Copenhagen Ø

CVR no.: 40 86 47 25

Financial year: 16 October 2019- 31 December 2020

Incorporated 16 October 2019

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Auditors

EY Godkendt Revisionspartnerselskab

Dirch Passers Allé 36

2000 Frederiksberg

Banks

Jyske Bank A/S

Statement by the Board of Management

The Board of Directors have today discussed and approved the Annual Report for the financial year 16 October 2019 – 31 December 2020 for Capital Four CLO Management K/S.

The Annual Report has been prepared in accordance with the Danish Financial Statement Act.

The financial statements give a true and fair view of the Limited Partnership's assets, liabilities, equity and financial position as at 31 December 2020 and of the results of operations for the financial year 16 October 2019 – 31 December 2020.

We recommend that the Annual Report is approved at the Annual General Meeting.

Copenhagen, 15 March 2021

Board of Management



Sandro Naef



Torben Magaard Skødeberg

Independent Auditor's Report

To the limited partners of Capital Four CLO Management K/S

Opinion

We have audited the financial statements of Capital Four CLO Management K/S for the financial year 16 October 2019 – 31 December 2020, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2020 and of the results of the Company's operations for the financial year 16 October 2019 – 31 December 2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Alternative Investment Fund Managers etc. Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue

an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statement Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 15 March 2021

EY Godkendt Revisionspartnerselskab

CVR-nr. 30 70 02 28



Anders Duedahl-Olesen

State Authorised Public Accountant
mne24732

Management's review

Business activities

The Limited Partnership's object is to make and hold investment in collateral loan obligations necessary in order for the Limited Partnership to comply with the European regulation on risk retention applicable at all times and perform portfolio management services.

Business review

The Limited Partnership was incorporated and established on 16th October 2019 with a base capital of 65 MEUR.

At the outset of 2020, the Limited Partnership's investments were the majority stake in the subordinated notes issued by Capital Four CLO I which closed early December 2019 and subordinated notes for CLO II.

Following the official inception of the warehouse, the outbreak of COVID-19 caused a shock to the global economy and the financial markets, including leveraged loans and CLOs, bringing CLO new issue activity to a halt. Due to the resulting uncertainty as to whether and when CLO II could be priced at reasonable economics in the primary market, the ramp-up of the portfolio was brought to a halt as well. The market value of the Limited Partnership' investment in the subordinated notes of CLO I and the warehouse for CLO II, had fallen significantly, compared to their issue price.

As financial markets began to recover, the tightening of CLO spreads in the second half of the year made CLO equity economics increasingly attractive and the preparations necessary to bring CLO II to the primary market were intensified again. The CLO II was priced on December 11. The total size of the transaction was € 356.2m.

Significant events occurring after end of reporting period

Capital Four CLO II closed on January 22, 2021, six weeks following the pricing date. On this date, the CLO's notes were officially issued. The proceeds earned by the Limited Partnership were used to fund the purchase of the newly issued subordinated notes of the CLO. On the closing date, the portfolio was around 100% ramped.

No further subsequent event has occurred after end of the reporting period.

Income statement 16 October 2019 – 31 December 2020

Notes	16 October 2019 - 31 December 2020
Amounts in DKK'000	
<hr/>	
Profit/loss on investment activities	4,342
² Other external expenses	-8,916
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Gross profit/loss	-4,574
Financial expenses	-74
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Profit/loss for the period	-4,648
Proposed appropriation account	
Retained earnings	-4,648
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Total	-4,648
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Balance sheet at 31 December 2020

Assets		31.12.20
Notes	Amounts in DKK'000	
<hr/>		
	Bonds	177,353
	Fixed asset investments	177,353
<hr/>		
	Total non-current assets	177,353
	Tax receivable	24,000
	Prepaid expenses	82
	Other receivables	278,825
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	Total receivables	302,907
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	Cash	1,768
<hr/>		
	Total current assets	304,675
<hr/>		
	Total assets	482,028
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Balance sheet at 31 December 2020

Liabilities & equity	31.12.20
Notes Amounts in DKK'000	
<hr/>	
Limited partners' capital	
Share capital	484,862
Retained earnings	-4,648
Total limited partners' capital	480,214
<hr/>	
Other liabilities	1,814
Total current liabilities	1,814
<hr/>	
Total liabilities	1,814
<hr/>	
Total equity and liabilities	482,028
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3 Contingent liabilities

4 Charges and security

Limited partners' capital at 31 December 2020

Amounts in DKK'000	Share capital	Retained earnings	Total
Equity at 10.16.19	484,862	0	484,862
Net profit/loss for the year	0	-4,648	-4,648
Equity at 31.12.20	484,862	-4,648	480,214

The limited partner's capital is divided into limited partnership interest of EUR 1 of a nominal value of 65,000,000 EUR. The uncalled capital amounts to 19,995,930 EUR.

Notes

1 Accounting policies

GENERAL

The annual report of Capital Four CLO Management K/S has been prepared in accordance with the provisions of the Danish Financial Statements Act for enterprises in reporting class B with application of provisions for a higher reporting class. The presentation of the financial statements is adjusted to the limited partnership's special activities.

Basis of recognition and measurement

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of the payment are recognised in the income statement as financial income or financial expenses.

Income is recognised as earned, including value adjustments of financial assets and liabilities. In the income statement, all expenses, including depreciation, amortisation, impairment losses and write-downs, are recognised as well.

Assets are recognised when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet, when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

REPORTING CURRENCY

The Annual Report is presented in Danish kroner (DKK).

INCOME STATEMENT

Profit/loss on investment activities

Profit/loss on investment activities comprise realized and unrealized capital gains and losses on securities and derivative financial instruments, interest income and expenses on securities. Income and expenses are recognized in the income statement at the amounts relating to the financial year.

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities including administration fee.

Staff costs and other external expenses

Staff costs comprise salaries and wages as well as social security costs etc. Other external expenses comprise costs incurred during the year for fund management.

Financial income and expenses

Interest income and interest expenses include interests etc. not related to investment activities.

BALANCE SHEET

Bonds at fair value

Bonds and mortgage bonds traded on active markets are measured at fair value. The fair value is calculated on the basis of the closing price on the market in question at the balance sheet date. Bonds redeemed are measured at present value.

If the market for one or more bonds or mortgage deeds is illiquid or if there is no publicly recognised price, the Company will determine the fair value by using recognised valuation techniques. These techniques include the use of reference to similar new transactions among independent parties, reference to other similar instruments, analyses of discounted cash flows as well as other models based on observable market data.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivables if there is no objective evidence of individual impairment of a receivable.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash includes deposits in bank accounts as well as operating cash.

Payables

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

Fair value

The fair value measurement is based on the principal market. If no principal market exists, the measurement is based on the most advantageous market, i.e. the market that maximises the prices of the asset or liability less transaction and/or transport costs.

All assets and liabilities which are measured at fair value, or whose fair value is disclosed, are classified based on the fair value hierarchy, see below:

Level 1: Value in an active market for similar assets/liabilities

Level 2: Value based on recognized valuation methods on the basis of observable market information

Level 3: Value based on recognized valuation methods and reasonable estimates (non-observable market information).

2 Significant judgements and estimates, assumptions and uncertainties

The financial statements are prepared based on specific assumptions which involve the use of judgements and estimates. These judgements and estimates are made by the company's Management in accordance with the accounting policies and based on historical experience as well as assumptions which management considers reasonable and realistic. The areas involving a higher level of judgement or complexity or areas in which assumptions and estimates are material to the financial statements, are disclosed below.

CLO bonds at fair value

As Collateral Manager, Capital Four CLO Management K/S, is required to hold minimum 5 pct. Of the CLOs under management (hereafter "risk retention"). The aim of risk retention portfolios in securitizations is to impose on the CLO manager a share of risk in the structure. Risk retention exposures must not be hedged. The Collateral Manager has considerable risk retention exposures, for which reason the financial statements of the Collateral Managers may be expected to be heavily affected should generally serious adverse credit changes take place in the underlying assets of the structures. Determining credit impairment and calculating individual and collective impairment losses regarding the underlying loans in the CLO structure are subject to significant judgement and estimation in connection with the quantification of the risk of debtors inability to honour their future obligations in whole or in part, as a result of which the bond series will sustain losses. Whether or not the ability to pay related to underlying loans is likely to deteriorate is subject to uncertainty and highly relies on judgement and estimation. According to IFRS 9 an assessment of each tranche in the CLO must be made to determine whether it shall be measured at fair value or amortised cost. The assessment is based in the credit risk of the underlying loan.

16 October 2019 –
31 December 2020

Amounts in DKK'000

2 Staff costs

Salaries	790
Other social security costs	1
Total	791
Average number of employees during the period	1

3 Contingent liabilities

The Limited Partnership is obligated to hold the entire risk retention as security of Capital Four CLO I DAC.

The company has entered a binding commitment of the risk retention capital of Capital Four CLO II DAC of EUR 17,679 thousand with closing date January 22, 2021.

4 Charges and security

The company has not provided any security over assets.