

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 2023

1 January 2021 – 31 December 2023

This annual report has been adopted
at the company's annual general
meeting on, the 29 4 2024

Chairman of the meeting:
Berit Birkemose Schnack



Table of contents

	<u>Page</u>
Limited partnership details	2
Statement by the Board of Management	3
Independent Auditor's Report	4
Income statement 1 January 2023 – 31 December 2023	8
Balance sheet at 31 December 2023	9
Balance sheet at 31 December 2023	10
Limited partners' capital at 31 December 2023	11
Notes	12

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: 1 January - 31 December
Incorporated 16 October 2019
Domicile: Copenhagen

Phone: 35 25 61 00
Internet: www.capital-four.com
E-mail: financials@capital-four.com

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 1 January 2023 – 31 December 2023 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 2023 and of the results of operations for the financial year 1 January 2023 – 31 December 2023.

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

Copenhagen, 21 March 2024

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 1 January 2023 – 31 December 2023, which comprise income statement, 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 2023 and of the results of the Company's operations for the financial year 1 January 2023 – 31 December 2023 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 Danish Financial Statements 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.

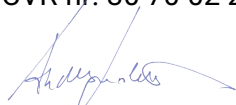
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statement Act.

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, 21 March 2024

EY Godkendt Revisionspartnerselskab

CVR-nr. 30 70 02 28



Anders Duedahl-Olesen

State Authorised Public Accountant
mne24732



Bjørn Würtz Rosendal

State Authorised Public Accountant
mne40039

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 EUR65 Million.

At the beginning of 2021, the Limited Partnership's investments were the majority stake in the subordinated notes issued by Capital Four CLO I which closed in December 2019, subordinated notes for Capital Four CLO II which closed in January 2021 and subordinated notes for Capital Four CLO III which closed in November 2021.

After the successful closing of Capital Four CLO III late 2021, 2022 was the program's first year with three 'live' outstanding CLOs.

In total € 12m (18.46% of total commitment) of equity payments were paid out as dividends to investors in 2023, bringing the total outstanding commitment down to € 29,3m.

Outlook 2024

In terms of an outlook for 2024, while we expect the high levels of volatility experienced in 2023 to subside, we do expect that dispersion in credit will remain as default rates are likely to increase from what have been low levels historically. However, early signs that certain economic data may be starting to roll over including lower consumer inflation which had been running at record levels should provide a much more supportive backdrop overall. As a result, we expect conditions for managers issuing CLOs to improve, allowing primary markets to re-open and function more normally.

Significant events occurring after end of reporting period

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

Income statement 1 January 2023 – 31 December 2023

Notes	1 January 2023 – 31 December 2023	1 January 2022 – 31 December 2022
Amounts in DKK'000		
	127,352	85,016
2 Profit/loss on investment activities	-24,061	-20,697
2 Other external expenses	103,291	64,319
Gross profit/loss	47	
Financial income	-1	-9
3 Financial expenses	103,337	64,310
Profit/loss for the period		
Proposed appropriation account		
Retained earnings	103,337	64,310
Total	103,337	64,310

Balance sheet at 31 December 2023

Assets

Notes	Amounts in DKK'000	31 December 2023	31 December 2022
	Bonds	491,484	468,902
	Fixed asset investments	491,484	468,902
	Total non-current assets	491,484	468,902
	Tax receivable	-	-
	Prepaid expenses	67	80
	Other receivables	-	5,289
	Total receivables	67	5,369
	Cash	36	125
	Total current assets	5,494	5,494
	Total assets	491,587	474,396

Balance sheet at 31 December 2023

Liabilities & equity		31 December 2023	31 December 2022
Notes	Amounts in DKK'000		
<hr/>			
Limited partners' capital			
	Share capital	219,066	308,468
	Retained earnings	263,769	160,432
Total limited partners' capital		482,835	468,900
<hr/>			
	Other liabilities	8,752	5,496
Total current liabilities		8,752	5,496
<hr/>			
Total liabilities		8,752	5,496
<hr/>			
Total equity and liabilities		491,587	474,396
<hr/>			

4 Contingent liabilities

5 Charges and security

Limited partners' capital at 31 December 2023

Amounts in DKK'000	Limited partnership capital	Retained earnings	Total
Equity at 1 January 2023	308,468	160,432	468,900
Distributions to Limited Partners	-89,402	-	-89,402
Profit/loss for the year	-	103,337	103,337
Equity at 31 December 2023	219,066	263,769	482,835

The limited partner's capital is divided into limited partnership interest of EUR 1 of a nominal value of 65,000,000 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.

1 January 2023 - 31 December 2023 1 January 2022 – 31 December 2022

Amounts in DKK'000

2 Staff costs

Salaries	849	875
Other social security costs	-	-
Total	849	875
Average number of employees during the period	1	1

3 Interests expenses

Negative interests	-	9
Other interests	1	
<hr/>		
Total	1	9
<hr/>		

4 Contingent liabilities

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

5 Charges and security

The company has not provided any security over assets.