

CAPITAL FOUR

Capital Four CLO Management II K/S

Per Henrik Lings Allé 2, 8th floor
2100 Copenhagen Ø
CVR no. 42 87 12 65

Annual Report 2022
24 November 2021 – 31 December 2022

This annual report has been adopted
at the company's annual general
meeting on, the *25/5* 2023

Chairman of the meeting:
Berit Birkemose Schnack



Capital Four CL0 Management II K/S

Table of contents

	<u>Page</u>
Limited partnership details	2
Statement by the Board of Directors and the Board of Management	3
Independent Auditor's Report	4
Income statement 24 November 2021 – 31 December 2022	8
Balance sheet at 31 December 2022	9
Balance sheet at 31 December 2022	10
Limited partners' capital at 31 December 2022	11
Notes	12

Capital Four CLO Management II K/S

Limited partnership details

Capital Four CLO Management II K/S
Per Henrik Lings Allé 2, 8th floor
2100 Copenhagen Ø
CVR no.: 42 87 12 65
Financial year: 24 November 2021- 31 December 2022
Incorporated 24 November 2021
Domicile: Copenhagen

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Internet: www.capital-four.com
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Auditors
EY Godkendt Revisionspartnerselskab
Dirch Passers Allé 36
2000 Frederiksberg

Banks
Jyske Bank A/S

Capital Four CLO Management II K/S

Statement by the Board of Directors and the Board of Management

The Board of Directors and Board of Management have today discussed and approved the Annual Report for the financial year 23 November 2021 – 31 December 2022 for Capital Four CLO Management II 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 2022 and of the results of operations for the financial year 23 November 2021 – 31 December 2022.

The Management's review gives a fair view of the development in the Company's operations and financial matters as well as a description of the most material risks and elements of uncertainty that may affect the Limited Partnership.

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

Copenhagen, 19 April 2023

Board of Management

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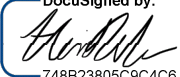
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Torben Maagaard Skødeberg

Board of Directors

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Torben Frederiksen
Chairman of the Board
of Directors

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Heine Hebbelstrup
Debel

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Henrik Østergaard

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Jesper Nielsen

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Dominic Fly

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Capital Four CLO Management II K/S for the financial year 23 November 2021 – 31 December 2022, 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 2022 and of the results of the Company's operations for the financial year 23 November 2021 – 31 December 2022 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 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

Capital Four CLO Management II K/S

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.

Capital Four CLO Management II K/S

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.

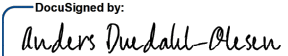
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statement Act.


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, 19 April 2023

EY Godkendt Revisionspartnerselskab

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713C6E6F48410
Anders Duedahl-Olesen
State Authorised Public Accountant
mne24732

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Bjoern Wurtz Rosendal
State Authorised Public Accountant
mne40039

Capital Four CLO Management II K/S

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 23th November 2021 with a base capital of 1 EUR.

The pricing of Capital Four CLO IV in May 2022 marked the first successful transaction out of the Capital Four CLO Management II program. As the collateral of the CLO was purchased at steeper than anticipated discounts following the pricing, around € 3.5m of the resulting 'excess par' was paid out as part of the first equity payment in January 2023. Due to challenging market conditions, Capital Four CLO V was not brought to the market in 2022 but is expected to be launched and priced in early 2023

Outlook 2023

In terms of an outlook for 2023, while we expect the high levels of volatility experienced in 2022 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.

Capital Four CLO Management II K/S

Income statement 24 November 2021 – 31 December 2022

Notes

24 November
2021 -31
December 2022

Amounts in DKK'000

Profit/loss on investment activities	51,450
² Other external expenses	-4,014
Gross profit/loss	47,436
Financial expenses	-131
Profit/loss for the period	47,305
 Proposed appropriation account	
Retained earnings	47,305
Total	47,305

Capital Four CLO Management II K/S

 Balance sheet at 31 December 2022

Assets		31.12.22
Notes	Amounts in DKK'000	
<hr/>		
Bonds		288,394
Fixed asset investments		288,394
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Total non-current assets		288,394
Prepaid expenses		111
Other receivables		80,261
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Total receivables		80,372
Cash		215
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Total current assets		80,587
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Total assets		368,981
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Capital Four CLO Management II K/S

Balance sheet at 31 December 2022

Liabilities & equity

31.12.22

Notes Amounts in DKK'000

Limited partners' capital

Share capital

318,811

Retained earnings

47,305

Total limited partners' capital**366,116**

Other liabilities

2,865

Total current liabilities**2,865****Total liabilities****2,865****Total equity and liabilities****368,981**

3 Contingent liabilities

4 Charges and security

Capital Four CLO Management II K/S

 Limited partners' capital at 31 December 2022

Amounts in DKK'000	Share capital	Retained earnings	Total
Equity at 24.11.21	-	-	-
Capital call	318,811	-	318,811
Net profit/loss for the year	-	47,305	47,305
Equity at 31.12.22	318,811	47,305	366,116

The limited partnership's capital is divided into limited partnership interest of EUR 1 or ant multiple thereof, subscribed for by the limited partners.

Notes

1 Accounting policies

GENERAL

The annual report of Capital Four CLO Management II 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.

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.

Other 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.

Capital Four CLO Management II K/S

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).

Capital Four CLO Management K/S

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 II 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.

24 November 2021

-

31 December 2022

Amounts in DKK'000

2 Staff costs

Salaries	841
Total	841
The 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 IV DAC.

4 Charges and security

The company has not provided any security over assets.