Sona Asset Management:
TCFD Entity-Level Report

Sona Asset Management

Sona Asset Management ("**Sona**" or the "**Firm**") is a European credit asset manager, and widely regarded as leveraged finance experts throughout Europe.

Sona's highly experienced portfolio managers specialise in investing across the credit spectrum with a primary focus on European markets. The Firm seeks to generate positive, uncorrelated returns in all markets.

The longevity and success of Sona is centred around the simple principle of delivering long-term value to all clients, with a focus on capital preservation and outperformance at times of stress.

TCFD

We are pleased to present our first annual TCFD Entity-Level Report, consistent with the Recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**").

This report sets out the TCFD-aligned entity-level disclosures of the Firm (the "**Report**"), in relation to climate-related matters, for the reporting period 1 January 2024 to 31 December 2024 (the "**Reporting Period**"). This Report sets out our disclosures in relation to the four pillars and 11 recommendations of the TCFD framework and fulfils the requirements of the FCA's ESG Sourcebook in relation to TCFD disclosure (ESG 2.1 Preparation of climate-related reports and ESG 2.2 TCFD entity report).

In preparing our first TCFD Report, we undertook to use the most up to date information available. However, it should be acknowledged that there remain data and methodological challenges associated with climate reporting in the asset management industry. We have included TCFD-aligned disclosures in line with FCA guidance on a best-efforts basis and where it is fair, clear and not misleading for us to do so.

Governance

Sona recognises the importance of considering the risks that climate change may pose to our portfolio and our operations.

Identifying, assessing, and managing climate-related risks and opportunities is undertaken as part of our Responsible Investment ("**RI**") process. In 2022, Sona first developed an RI Policy which was further enhanced in 2023. Sona's RI Policy includes a framework which is fully integrated into the Firm's investment process.

Sona's RI Policy covers the approach to responsible investing for all assets under management of Sona. While Sona is not an RI or Impact Fund, the Firm believes it is important to consider RI and sustainability factors including climate risks when making investment decisions to the extent they could have a material impact on the value of the investment. The primary objective of incorporating sustainability factors into investment analysis and decisions is to manage potential risks and maximise potential opportunities, which may have a material financial impact.

Sona's RI culture has been developed by its senior management, who maintain oversight and accountability for the Firm's approach to Responsible Investing. Sona has established an RI Committee consisting of senior individuals representing a range of business areas including portfolio management, investor relations and operations.

Where the RI Committee identifies a matter for escalation it will escalate such matter to the Executive Committee.

The RI Committee has formal responsibility for Sona's RI strategy, and for implementing RI initiatives across the firm. The RI Committee meets quarterly and reviews a snapshot of the portfolio. The Investor Relations ("**IR**") team is responsible for inputting a portfolio snapshot into Integrum (the Firm's RI data provider), which calculates a number of RI metrics. The IR team will present the overall portfolio score to the RI Committee each quarter and identify any material changes. The RI Committee will also consider the five top and bottom issuers and discuss the risk factors associated with each.

The Firm has also been a signatory to the UN Principles for Responsible Investment ("**PRI**") since September 2023. Sona reports on its approach to the identification, assessment and management of climate related risks and opportunities as part of its annual PRI reporting. Sona will publish its first report in 2025.

Delegation by the Firm

The Firm delegates certain investment management responsibilities in relation to the portfolio(s) to one or more affiliates, which act as sub-investment managers for portfolio(s). In the relevant sub-investment management agreements, the Firm contractually requires the delegate to comply with the investment mandate for the portfolio(s).

The Firm did not include specific climate-related matters in the agreement(s) to delegate investment management responsibilities, as these were not considered material or relevant to the delegation agreement(s).

Strategy

Identifying, assessing and managing climate related risks and opportunities

Climate-related risks and opportunities are considered as a part of Sona's RI analysis and due diligence process.

The investment team seeks to identify potential climate-related risks and opportunities that may affect its investments as part of their research. This may include both physical and transition related climate risks, as well as climate-related opportunities.

Guidelines in line with TCFD are provided to the investment team helping them to identify the potential financial impacts from climate-related risks, and opportunities. If potential climate-related risks are identified, the investment team will seek to manage these risks, either through engagement with the investee entity, or through portfolio construction.

Sona implements consideration of climate risk in line with implementation of broader market risks and sustainability factors. For example, as part of their research, Sona's analysts seek to determine if there are any factors which could impact the price of a bond. In this way, investment decisions can be made with these climate-related considerations in mind.

Sona notes that in the Long/Short credit hedge fund strategy, the average holding period for each position is between one and four months, and the portfolio is rotated often. This creates an additional barrier to the collection and analysis of climate-related data, as the Firm believe the ability to analyse companies quickly and execute trades in an agile manner is key to the success of the strategy. As such, the weight given to climate risks may vary by position. In some sectors, such as oil and gas, climate-related factors may be material to the potential price of a security. For example, if the investment team are considering buying bonds in a coal mining company, they would do the analysis to determine if there were sufficient decommissioning funds available to mitigate any ongoing environmental damage after the life of the mine, which might impact Sona's ability to exit the position.

In this strategy, climate risks may form either long or short ideas. For example, after the wildfires in California in January 2025, and the understanding that these types of extreme events may become increasingly common with climate change, Sona sought to express a negative view on this type of climate risk. As an illustration, Sona considered sectors such as homebuilders, who may find that extreme weather events cause demand for housing in California to decrease, and providers of leased solar panels, who's clients may lapse their payments if they have been destroyed in the fires.

In addition, Sona would consider whether there are possible risks or opportunities associated with the energy transition and its potential impact on regulations. For example, Sona has been active in the autos sector (historically both on the long and the short side). Recently, many European car manufacturers have been spending significant amounts on manufacturing Electric Vehicles (EVs). The move to EVs could present an investment risk associated with the energy transition for traditional combustion engine manufacturers. However, this could also be an opportunity for auto manufacturers who have already invested in EVs.

Nevertheless, where Sona expects to trade tactically in a position, there may not be a sufficient hold period for climate risks to crystallise, and these may not be considered material when underwriting the position.

Sona's Capital Solutions, SRT, CLO Equity and CLO strategies are long-only or long-biased and may have a longer hold period. As such, it can be more straightforward to consider material climate risks, as the positions may be in the portfolio for longer. Sona is also more likely to engage with the management teams in these strategies, although it would not expect to engage on sustainability with management teams on all investments.

Thematically, Sona is interested in energy security and energy policies within Europe and with its neighbours. Sona believes that there may be pressures on traditional energy production, but also a push for further energy autonomy, which are objectives that may be at odds with each other and cause potential opportunities.

Scenario analysis
Scenario analysis is an important tool for exploring and assessing potential outcomes and impacts under different climate circumstances.

Given the nature of the Firm's investment universe, Sona does not undertake climate specific scenario analysis. However, climate related issues (such as policy changes, weather related risks or geopolitical issues) may appear as part of wider analysis when deemed appropriate by the investment or risk teams.

Risk management

Risk management is at the core of Sona's investment approach. As stated above, climate-related risks are identified as a part of Sona's RI and sustainability analysis process.

Climate-related issues may be identified and managed in a number of ways within the Firm. For example, portfolios are assessed against third party data where coverage permits, and portfolio level scores monitored. Representatives of the RI Committee report to Sona's Risk Committee on a quarterly basis on the RI scoring of the funds' investments and each fund in aggregate. During the review of this information, the Risk Committee may make recommendations to Sona's Chief Investment Officer to reduce or add to positions based upon the likelihood that RI and sustainability factors, including climate-related ones, may positively or adversely impact fund positions or each fund in aggregate.

Sona engages a risk management process which has three stages. The first is the individual underwrite undertaken by the investment analyst. The second is the aggregation of positions by sub-strategy by the sub-strategy PM. The final is the aggregation of risk across sub-strategies by the CIO and CRO. During the first stage, it is the responsibility of the analyst to assess risks to the business that could influence the value of those positions. Climate and sustainability-related risks will be included in this to the extent they are relevant. The portfolio managers are then responsible for aggregating individual positions and determining any risk factors that may remain. Portfolios are stress tested and it is intended to avoid undue concentration in any particular name, sector, geography, or type of catalyst. Similarly, the CIO and CRO will seek to do the same at a Fund level and Firm level. Sustainability or climate-related catalysts may be one factor that needs to be managed in the risk management process if there are material exposures where this is a relevant consideration.

Sona does not currently have specific reporting procedures in place to communicate the assessment of climate-related risks, but they may appear as part of wider analyses when material.

Metrics and Targets

Metrics

Sona sources climate-related data from Integrum. This includes data on the core TCFD related metrics focusing on carbon emissions data, as shown in the table below.

Methodology and data coverage

The data includes a combination of actual and proxy data, depending on availability. Across Sona's SCMF[1] and Capital Solutions II Funds, there is over 68% coverage of actual data, sourced from investee company disclosures. Where actual data is not available, Integrum have provided proxy figures using average values for a given subsector in that specific region. A proportion of sovereign assets (18.52%) are considered to be out of scope and are not covered in the analysis. The data provided below includes long and short positions.

Details around the methodology can be found here.

Core metrics: GHG emissions

The table below illustrates Sona's greenhouse gas (GHG) emissions against the FCA core metrics for long positions. Note that these longs are across the All-Weather and Capital Solutions II portfolios.

Metric	Value
Scope 1 and 2 greenhouse gas (GHG) emissions (tCO2e)	933,940,520.37
Scope 3 GHG emissions (tCO2e)	6,425,485,416.71
Total GHG emissions (tCO2e)	7,359,425,937.07
Total carbon Footprint (tCO2e/£m)	160.25
Weighted Average Carbon Intensity (WACI) (tCO2/£m Revenue)	449.70

The table below illustrates Sona's greenhouse gas (GHG) emissions against the FCA core metrics for short positions. The short positions are in Sona's All-Weather strategy portfolio.

Metric	Value
Scope 1 and 2 greenhouse gas (GHG) emissions (tCO2e)	698,703,420.30
Scope 3 GHG emissions (tCO2e)	6,244,725,067.38
Total GHG emissions (tCO2e)	6,943,428,487.68
Total carbon Footprint (tCO2e/£m)	130.13
Weighted Average Carbon Intensity (WACI) (tCO2/£m Revenue)	139.54

[1] SCMF is the Sona Credit Master Fund. This comprises 85-90% of the assets in the All-Weather strategy and serves as a proxy for the strategy exposure, as the other vehicles in the strategy are managed broadly pari passu.

Other data – Climate Value at Risk (CvaR)

Sona have also started to explore other data including Climate Value at Risk (CVaR). This shows the potential value of the portfolio that is at risk if carbon permit prices increase at different levels. It is calculated by multiplying a company's latest annual CO2e emissions by a notional carbon price, to generate a total annualised cost for its CO2e emissions. This is shown as a percentage of the company's operating profit. The calculation is made using the three climate scenarios used by NGFS (the Network for Greening the Financial System):

- 'Orderly': early action to keep global warming below a 2C scenario
- 'Disorderly': action to keep global warming below a 2C scenario which is late, disruptive and sudden
- 'Hot house': limited action which has led to significant global warming and physical risks

The climate value at risk increases from an Orderly Transition, which is considered to have the lowest risk to a Disorderly Transition (moderate risk) and finally to a Hothouse World, which is considered the highest risk. This data is shown in the table below.

Climate Value at Risk (CvaR)

	Climate VaR (Orderly)	**Climate VaR (Disorderly)**	**Climate VaR (Hothouse)**
CapSol long	10.11%	16.18%	20.23%
SCMF[1] long	10.98%	17.57%	21.96%
SCMF[1] short	11.74%	18.79%	23.48%

The data shows that Capital Solutions II long and SCMF long have the least exposures to climate-related risks across the three scenarios, while the SCMF short position has the highest Climate VaR, meaning it is the most vulnerable to climate-related financial losses. The data also shows that CVaR increases significantly under the Disorderly and Hothouse scenarios. Broadly this reflects that delaying climate action has a higher financial risk and suggests that investments may be affected by policy changes and other issues in the transition to a low-carbon economy.

Targets

Sona does not believe that setting climate related targets is currently relevant or material to the Firm's investments, due to the volume of trades and turnover in our portfolios. As a credit investor, Sona does not typically take an activist stance and may have limited engagement with management teams. As such, the Firm has a limited ability to influence corporate outcomes, and does not feel setting climate targets is impactful. Nevertheless, Sona's teams continue to monitor this space and are ready to take action should they be required to. Similarly, the Firm do not currently have in place a transition plan as it is not relevant or material to Sona's investment approach.

Conclusions and next steps

In conclusion, while this is Sona's first TCFD report, Sona is aware of climate and sustainability-related and has measures in place to capture material RI factors in the investment process. However, the availability of data continues to be a challenge that Sona will seek to address going forward.

Compliance statement

The disclosures set out in this report comply with the requirements set out in the FCA ESG Sourcebook including guidance set out in ESG 2.1 Preparation of climate-related reports and ESG 2.2 TCFD entity report.

Signed by:

By: F8D6EEC56404442...

Name: Constantine Knox

Title: General Counsel

Date: 6/10/2025