

Statement on principal adverse impacts of investment decisions on sustainability factors

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| Financial market participant | | | | | | |
| Bilbao CLO II DAC | | | | | | |
| Summary | | | | | | |
| Bilbao CLO II DAC (LEI: 6354005WQLZBA5LJUW27) considers the principal adverse impacts of its investment decisions on sustainability factors. The present statement is the statement on principal adverse impacts on sustainability factors of Bilbao CLO II DAC which is managed by Guggenheim Partners Europe Limited (LEI: 635400TIDSVSBSYHDR39). | | | | | | |
| This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January 2022 to 31 December 2022. | | | | | | |
| Description of the principal adverse impacts on sustainability factors | | | | | | |
| For the purposes of this statement, by “principal adverse impacts” is meant the negative, material or likely to be material effects on sustainability factors caused, compounded by or directly linked to our investment decisions. We prioritise and report on principal adverse impacts of our investment decisions on sustainability factors on basis of and covering the indicators listed below. | | | | | | |
| Through the consideration of principal adverse impacts, Guggenheim Partners Europe Limited (as manager of Bilbao CLO II DAC) is monitoring and reporting on 14 mandatory principal adverse impact indicators and two voluntary indicators defined by SFDR. How and to what extent we consider, and address principal adverse impacts will evolve over time and hence continuously alter this statement. Further, there are differentiations between the CLOs managed by Guggenheim Partners Europe Limited. | | | | | | |
| INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES | | | | | | |
| Adverse sustainability indicator | | Metric | Impact 2022 | Impact 2021 | Explanation | Actions taken, and actions planned and targets for the next reference period |
| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | | | | | |
| Greenhouse gas emissions | 1. GHG emissions | Scope 1 GHG emissions | 7131.730 Metric Tonnes CO2e | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | | Scope 2 GHG emissions | 6094.712 Metric Tonnes CO2e | NA | | ESG Stipulations ESG Integration ESG Engagement |

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| | | Scope 3 GHG emissions | 27055.545 Metric Tonnes CO2e | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | | Total GHG emissions | 44151.059 Metric Tonnes CO2e | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | 2. Carbon footprint | Carbon footprint | 97.343 Metric Tonnes CO2e per million EUR invested | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | 3. GHG intensity of investee companies | GHG intensity of investee companies | 200.607 Weighted average Metric Tonnes CO2e per million EUR Revenue | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | 4. Exposure to companies active in the fossil fuel sector | Share of investments in companies active in the fossil fuel sector | 0.605 % | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | 5. Share of non-renewable energy consumption and production | Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources | 57.476 % | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | 6. Energy consumption intensity per high impact climate sector | Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector | 0.203 GWh per million EUR Revenue | NA | | ESG Stipulations ESG Integration ESG Engagement |
| Biodiversity | 7. Activities negatively affecting biodiversity-sensitive areas | Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of | 0.605 % | NA | | ESG Stipulations ESG Integration ESG Engagement |

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| | | those investee companies negatively affect those areas | | | | |
| Water | 8. Emissions to water | Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average | 0.012 Metric Tonnes per million EUR Enterprise Value | NA | | ESG Stipulations ESG Integration ESG Engagement |
| Waste | 9. Hazardous waste and radioactive waste ratio | Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average | 1.411 Metric Tonnes per million EUR Enterprise Value | NA | | ESG Stipulations ESG Integration ESG Engagement |
| SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | | | | | |
| Social and employee matters | 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises | Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | 0 % | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises | Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | 25.979 % | NA | | ESG Stipulations ESG Integration ESG Engagement |

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| | 12. Unadjusted gender pay gap | Average unadjusted gender pay gap of investee companies | 14.515 % | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | 13. Board gender diversity | Average ratio of female to male board members in investee companies, expressed as a percentage of all board members | 19.191 % | NA | | ESG Stipulations ESG Integration ESG Engagement |
| | 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | Share of investments in investee companies involved in the manufacture or selling of controversial weapons | 0 % | NA | | ESG Stipulations ESG Integration ESG Engagement |
| INDICATORS APPLICABLE TO INVESTMENTS IN SOVEREIGNS AND SUPRANATIONALS | | | | | | |
| Adverse sustainability indicator | | Metric | Impact 2022 | Impact 2021 | Explanation | Actions taken, and actions planned and targets for the next reference period |
| Environmental | 15. GHG intensity | GHG intensity of investee countries | NA | NA | | |
| Social | 16. Investee countries subject to social violations | Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law | NA | NA | | |
| Fossil fuels | 17. Exposure to fossil fuels | Share of investments in real estate assets involved in the extraction, | NA | NA | | |

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| | through real estate assets | storage, transport or manufacture of fossil fuels | | | | |
| Energy efficiency | 18. Exposure to energy-inefficient real estate assets | Share of investments in energy-inefficient real estate assets | NA | NA | | |
| OTHER INDICATORS FOR PRINCIPAL ADVERSE IMPACT | | | | | | |
| Investments in companies without carbon emission reduction initiatives is 57.607 % | | | | | | |
| Investments in companies without workplace accident prevention policies is 28.834 % | | | | | | |
| <p>Description of policies to identify and prioritise principal adverse impacts on sustainability factors</p> <p>Governance</p> <p>Bilbao CLO II's ESG stipulations were approved by the Board of Directors of Guggenheim Partners Europe Limited on 20 July 2021 (as collateral manager of the vehicle). Guggenheim Partners Europe Limited are responsible for the deployment and management of the CLO's ESG requirements.</p> <p>ESG Assessment Process</p> <p>Our approach in relation to principal adverse impacts relies on a robust investment process (of which ESG is a consideration) in conjunction with a specific set of investment stipulations for Bilbao CLO II which are detailed in Bilbao CLO II's Offering Circular ("Offering Circular"). We recognize that industry guidelines and best practices for ESG management continue to evolve over time. Accordingly, we continue to monitor and review our approach on an ongoing basis. Consideration of ESG criteria is a relevant component of Guggenheim Partners Europe Limited's investment philosophy and process. We believe that ESG criteria can meaningfully influence investment outcomes, and that careful analysis of ESG criteria is an important component in evaluating the risks associated with some of our investment strategies. Our approach is to concentrate on the following principles:</p> <ul style="list-style-type: none"> • Formalize and implement the consideration of ESG criteria throughout our macroeconomic, sector, and issuer research across our core investment asset classes. • Provide strong leadership throughout the firm to ensure ESG criteria are understood by investment professionals and integrated into their work, as appropriate. • Work closely with our clients to ensure we understand the best approach to incorporating ESG criteria into management of their portfolios, where mandated and/or permitted. • Be transparent about our approach to and the application of ESG criteria into our investment thesis. <p>All issuers are evaluated for ESG risk before inclusion in client portfolios.</p> <p>All issuers are evaluated for compliance with the relevant portfolio's ESG stipulations.</p> | | | | | | |

ESG criteria is weighed alongside traditional credit risks when researching and forming opinion on potential investments.

ESG assessment is carried out by research analysts on individual issuer level and industry level.

Issuers may be deemed ineligible by Guggenheim Partners Europe Limited for investment into Bilbao CLO II due to incompatibility with the portfolio's ESG stipulations and/or for other ESG considerations that would not otherwise be ineligible as per the ESG stipulations.

ESG Stipulations

Bilbao CLO II DAC (or Guggenheim Partners Europe Limited on its behalf) only invests in issuers, if such investments, to the best of its knowledge, are 'ESG Compliant Obligations', as defined in the Offering Circular.

An 'ESG Compliant Obligation' means, any investment as determined by Guggenheim Partners Europe Limited (such determination taking account of the ESG Due Diligence Procedures and taking into consideration ESG Best Practices noted in the Offering Circular), that does not undertake directly any ESG Excluded Business Activities (which are 'ESG Conduct Based Exclusions' and/or 'ESG Product Based Exclusions' where the issuer derives a material portion of revenues from such activities as set forth herein or such amount of revenue as specified in the relevant limb) as of the date of a binding commitment to purchase such investments.

'ESG Conduct Based Exclusions' include:

- a) Activities that are in violation of the United Nations Global Compact, including "The Ten Principles of the UN Global Compact" (as stated on the Issue Date); and
- b) Issuers that have been identified by the Collateral Manager through utilisation of third party data, as having corporate involvement in the end manufacture or manufacture of intended use components of biological and chemical weapons, anti-personnel land mines, or cluster munitions as defined in the Biological and Toxin Weapons Convention of 1972, the Chemical Weapons Convention of 1993, the Anti-personnel Landmines Convention of 1997, and/or the Convention on Cluster Munitions of 2010.

'ESG Product Based Exclusions' include issuers where revenues exceed specific thresholds set out in the Offering Circular relating to various industries such:

- a) any issuer that derives any revenue from the development, production, manufacture, marketing, maintenance, trade in or stock-piling of weapons of mass destruction, including biological and chemical weapons, anti-personnel land mines, cluster munitions, depleted uranium, nuclear weapons, radiological weapons and white phosphorus;
- b) any issuer that derives any revenue from the production of and/or trade of illegal drugs or narcotics, including recreational cannabis;
- c) any issuer that derives any revenues from manufacture, sale, distribution or trade in pornographic materials or content, or prostitution-related activities;
- d) any issuer that primarily provides payday lending (i.e. the extension of high-cost short-term credit as such term is defined in the FCA Handbook);
- e) any issuer which is an electrical utility where carbon intensity is greater than 100gCO₂/kWh, or where carbon intensity is not disclosed, it generates more than:
 - a. 1 per cent. of its electricity from thermal coal;
 - b. 10 per cent. of its electricity from liquid fuels (oils);

- c. 50 per cent. of its electricity from natural gas; or
- d. 0 per cent. of its electricity from nuclear generation;
- f) any issuer that owns, operates or primarily provides integral services to physical casinos and/or online gambling platforms;
- g) any issuer which derives more than 50 per cent. of its revenue from the trade in, production or marketing, but not recycling, of (A) unregulated hazardous chemicals, non-biological pesticides and hazardous wastes, or (B) ozone-depleting substances as covered by the Montreal Protocol on Substances that Deplete the Ozone Layer (1989);
- h) any issuer that trades in the following endangered or protected wildlife, (i) any species described as 'endangered' or 'critically endangered' in the most recent publication of the International Union for Conservation of Nature (IUCN) Red List; or (ii) any species subject to protection under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973);
- i) any issuer that generates more than 5 per cent. of revenues from:
 - a. sale or extraction of thermal coal or coal based power generation;
 - b. sale or extraction of oil sands;
 - c. extraction of fossil fuels from unconventional sources (including Arctic drilling, shale oil and shale gas (or other fracking activities));
- j) any issuer which is an oil and gas producer which derives less than 40 per cent. of its revenue from natural gas or renewables, or which has reserves of less than 20 per cent. deriving from natural gas;
- k) any issuer where more than 10 per cent. of its revenue is derived from weapons or tailor-made components and obligors that are involved in the manufacturing of civilian firearms;
- l) any issuer that generates more than 5 per cent. of revenues from the production, sale or manufacture of tobacco or tobacco products, including cigars, cigarettes, e-cigarettes, smokeless tobacco, dissolvable and chewing tobacco, or any obligor that is classified as "tobacco" by S&P & GICs; and
- m) any issuer that generates more than 50 per cent. of its revenue from trade in, production or marketing of opioid manufacturing and distribution.

Further, any issuer that is captured by any limb of this definition shall be considered a "Prohibited Obligor", and provided further that any business that does business with or provides support services to such company, including, without limitation, payment platforms, web hosting services, transport services and/or general retail, shall not constitute a Prohibited Obligor, unless its sole business function is to provide support services to such company. Furthermore, any business that is only engaged in the production and/or sale of computer technology, communications equipment, software, medical supplies, vaccines or similar items or any other product or component that is potentially suitable for use with respect to a Prohibited Obligor will not constitute a Prohibited Obligor.

Data Sources and Margin of Error

The measurement of adherence and alignment as well as reporting on principal adverse impact indicators is in general based on data from one external provider of sustainability data.

The data provider, FinDox, has been selected by Guggenheim Partners Europe Limited on basis of a thorough due diligence process. This means that dimensions such as models used, data coverage and alignment of the definitions outlined in SFDR have been thoroughly scrutinised.

In utilising FinDox as vendor, no direct collection of data is in overall done by Guggenheim Partners Europe Limited from the issuers that we invest into on behalf of Bilbao CLO II. There may be engagement with the external data provider in cases where data is incorrect or if there are significant data gaps. For calculations requiring an average, these averages are based on holdings with coverage. Where reported data is not available or of adequate quality, proxy data provided by third-party data providers is used.

As of June 2023, FinDox has coverage of approximately 1,400 unique issuers for whom they have collected and prepared data on across the EU and US for the purposes of SFDR reporting.

The data coverage on individual principal adverse impacts may vary greatly, dependent of the quality of the corporate disclosures and information available publicly or privately. At this point in time, it is difficult to accurately assess the magnitude of the margin of error, but it is expected to be substantial. As corporate disclosures are expected to improve and increase over time with further ESG engagement, we also expect the margin of error to be reduced impacting the reports.

More information about the external data sources used is available upon request.

Engagement policies

As more investors incorporate ESG criteria into their investment decision making process, it will encourage better management practices and more environmentally and socially sustainable outcomes.. In certain cases, discussions of relevant ESG criteria occur naturally during the due diligence process. There are also scenarios in which such ESG criteria play an outsized role in the fundamental outlook for a business and the corresponding return on our investment. Our investment professionals may seek to engage, on a case-by-case basis, with a company's board and management to encourage best practices in an effort to improve the relative value of the company.

Recognizing that an issuer's risk profile may change over time, our approach seeks to incorporate a forward-looking assessment of ESG criteria. In practice, this means that we may assess an issuer's ESG characteristics more favourably if it is taking concrete steps to improve its risk profile by improving governance, addressing environmental or social policies, or deploying capital towards projects that are likely to lead to a more sustainable enterprise. The inverse is also true if we believe an issuer's ESG characteristics are likely to deteriorate in the future

Guggenheim Partners Europe Limited is a member of the European Leverage Finance Association's ESG Committee. The ESG Committee works to improve disclosure on ESG topics in the leveraged finance market and to develop best practice guidance on ESG disclosures for sub-investment grade corporate borrowers in collaboration with the UN Principles for Responsible Investment.

References to international standards

Bilbao CLO II DAC's commitment to the promotion of environmental and social characteristics and reduction in principal adverse impacts is illustrated by its adherence and compliance with the following codes and standards:

- UN Global Compact

Further, Bilbao CLO II adopts aspects of the following codes and standards into its ESG stipulations:

- Montreal Protocol on Substances that Deplete the Ozone Layer 1989
- Biological and Toxin Weapons Convention of 1972
- Chemical Weapons Convention of 1993
- Anti-personnel Landmines Convention of 1997
- Convention on Cluster Munitions of 2010
- International Union for Conservation of Nature (IUCN) Red List
- Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973)

Our adherence to these initiatives, whether responsible business conduct codes and internationally recognised standards for due diligence and reporting, is uncompromising. Any issuers identified as being in breach of these codes and standards (in line with the ESG stipulations of the CLO) are ineligible for investment.

Although climate change is of considerable concern to us, Bilbao CLO II does not currently measure its degree of alignment with the objectives of the Paris Climate Agreement and therefore cannot commit to a minimum alignment with this agreement.

Historical comparison

Available in 2024