



# Committed to the Journey

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2020

**Castlelake’s ESG journey continues, guided by a commitment to live our values and advance the objectives of our limited partners. Acting with integrity stands first among these values and has informed our approach to investing responsibly and conducting ourselves as good corporate citizens since our founding. We invite you to follow our progress.**

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# A Message from Our CEO

## To our stakeholders,

Castlelake has been shaped by four core values from the very beginning: High Integrity, Investor Focus, Innovation and Thoughtfulness. These same principles guide our commitment to environmental, social and governance (ESG) issues in our business practices; issues which we believe to be harmonious with our duties as stewards and responsible investors of the capital we are entrusted to manage.

Climate change, widening social and economic disparities, shifting consumer preferences and technological disruptions continue to reinforce the critical importance of integrating ESG considerations into investment decision-making. This consideration allows us to not only mitigate risks, but also drive sustainable value creation for businesses across industries. Castlelake is in the foundational years of our ESG journey. Our approach to incorporating principles of responsible investing into our business practices continues to evolve as we learn; and, as with everything we do, it is anchored by our commitment to living our values and deepening our alignment with our limited partners' missions and long-term objectives.

As long-term investors, we are closely attuned to the macro factors that impact the trajectory, value drivers

and capital flows of global asset markets. The determinants of both risk and opportunity in the asset markets in which we operate include an array of complex and intricately linked factors ranging from environmental, social and health crises, to changing regulatory environments, geopolitical dynamics, investor preferences and many more. Consequently, there are distinct challenges in meaningfully incorporating ESG principles into our business as opportunistic investors in niche, deep value, asset-based opportunities. Nonetheless, we are dedicated to continuous improvement in our approach to responsible investment and good corporate citizenship.

As we take the next step in our journey, this inaugural annual report advances our accountability to accelerate, measure and communicate the detail behind our responsible investment processes and initiatives. It outlines the progress we have made to date, as well as the steps we are taking to expand and improve our ESG capabilities through research, education, data-driven analysis and industry collaboration.

Before closing, I would be remiss if I did not take a moment to reflect on the extraordinary events of 2020. The COVID-19 pandemic and ensuing economic crisis have cast in stark relief the structural, financial and social inequities that persist across our global

**“The tragic course of events of this year has created an indelible reminder of the interconnectedness of environmental, social and governance issues with business performance and resilience.”**

community. The tragic course of events of this year has created an indelible reminder of the interconnectedness of environmental, social and governance issues with business performance and resilience.

While few in this world have remained untouched by the events of 2020, we at Castllake watched with consternation as our hometown was transformed into the epicenter of tumultuous racial unrest. The display of social injustice that surfaced made us pause in reflection on our role as corporate citizens and how we can engage with our communities to build resources toward a more equitable economic system in Minnesota and beyond.

The crises of 2020 are far from over. As I write this, we are witnessing a campaign

— monumental in its ambition, scale and complexity — to distribute a vaccine to end this pandemic while still facing mounting casualties and worsening economic stress. As we navigate the dynamics of this uncertain economic climate, we remain dedicated to making positive impacts as thoughtful investors and engaged corporate citizens.

We are committed to this journey and look forward to sharing our progress with you in the years to come.

**Rory O’Neill**

CHIEF EXECUTIVE OFFICER &  
MANAGING PARTNER



# Castlelake in Brief

Co-founded in 2005 by Rory O'Neill and Evan Carruthers, Castlelake, L.P. is an \$18.4 billion global private investment firm focused on less-liquid, asset-rich opportunities in undercapitalized markets. Our goal is to optimize risk-adjusted investment returns while preserving invested capital. We target asset-based, cash-flowing opportunities while seeking to maintain a diversified, granular investment portfolio.

## Core Global Investment Strategies<sup>1</sup>

### Aviation



Newer, mid-life to end-of-life commercial aircraft and engines

**\$15B** of capital deployed

### Diversified Assets



Niche hard assets and secured non-performing loan portfolios

**\$8B** of capital deployed

### Specialty Finance



Small-balance consumer and commercial assets

**\$2B** of capital deployed

### Special Situations



Asset-rich special situations in dislocated markets

**\$5B** of capital deployed

### OUR TEAM

Our global team of more than 200 employees across offices in Minneapolis, Dallas, New York, London, Dublin and Singapore brings significant experience investing in illiquid, niche assets through multiple economic cycles.

### OUR APPROACH

Across market conditions and environments, we seek to unlock value in complex situations where the barriers to entry are high. We leverage our deep sector expertise, proprietary data sets and hands-on approach as we source, analyze and manage our investments with the utmost thoroughness. We believe the result for our investors is access to a targeted, complementary product offering with attractive, risk-adjusted returns.\*

### OUR INVESTORS

We believe that our differentiated platform enhances our ability to further the objectives of our global investor base. We serve more than 160 investors, including endowments, foundations, public and private pension plans, private funds, family offices, insurance companies and sovereign wealth funds. Our investors depend on the investments we make to pursue their missions and fulfill the objectives of the many stakeholders they serve.

By embedding ESG principles within Castlelake's investment approach and operations, we believe we are fortifying our ability to safeguard the capital of our investors and to serve as responsible corporate citizens.\*

1. Includes debt and equity invested across private market funds and vehicles managed by Castlelake from inception in 2005 to September 30, 2020.

\* See endnotes 1 and 2.

# Our Commitment to ESG

At Castllake, who we are defines our approach to investing and good corporate citizenship, and who we are is defined by our values, the fundamental tenets we strive to uphold daily:

**High Integrity:** We adhere to honest, ethical principles and demonstrate unwavering moral character. We respect others, do what we say we'll do and recognize that we're not perfect. There is no room for arrogance here. We can always improve.

**Investor Focus:** We have a deep sense of duty to those around us and are grounded by the knowledge that our actions have real impact on others. We never lose sight of our fiduciary status — one built by good faith and trust, and one that binds us to act in our clients' best interests.

**Innovation:** We are opportunistic entrepreneurs and pioneers, always discovering and exploring. We pride ourselves on being different and strive to be the best at it. We welcome change and understand that constant evolution is crucial.

**Thoughtfulness:** We are thoughtful and deliberate risk takers. Diligence is demanded in everything we do. We're nimble, not hasty. We take the road less traveled, but we travel with a map and ask for directions.

Castllake implemented our initial ESG policy in 2014, embodying these tenets within our investment activity, and in 2019 we resolved to further enhance and formalize our responsible investing infrastructure. This year we believe that we delivered on our promise, as shown in the table that follows, along with goals for the coming year.

## Progress Toward Our 2020 ESG Priorities

2020 Priority	2020 Action	2021 Goal*
Formalize ESG governance and strategy	Established ESG Strategic Plan	Update ESG/Responsible Investment Policy
	Formed ESG Committee	
Develop ESG management and monitoring progress	Implemented RepRisk™ analytics for monitoring investment portfolio and enhancing due diligence	Become a PRI signatory Broaden ESG underwriting and due diligence procedures across investment strategies
	Licensed SASB intellectual property to track material ESG factors	
Demonstrate progress on ESG metrics and data	Implemented data capture, tracking and reporting for aviation fleet CO2 emissions and efficiency	Expand data capture, aggregation and analytical initiatives across investment strategies Bolster ESG data management, analytics, reporting and monitoring infrastructure
	Aggregated ESG metrics for renewables portfolio	
Increase transparency, communication and engagement	Developed and published inaugural ESG report	Increase collaboration between ESG and Diversity & Inclusion committees Roll out annual firm-wide ESG training program Implement dedicated ESG Town Hall session and management company office programs
	Launched firm-wide ESG portal in SharePoint	

\* See endnote 2.



# ESG Governance and Resources

We believe our duty as stewards of limited partners' capital is compatible with the integration of ESG principles throughout our investment processes. Building a robust ESG governance structure helps make this successful integration possible.

To this end, Castlelake in 2020 elevated our ESG Working Group to full committee status, as a functional element of our governance structure. We positioned the ESG Committee within the purview of the firm's Portfolio Committee, thereby embedding ESG management as a component of Castlelake's investment underwriting and portfolio management processes.

Our ESG Committee's mandate is to provide the foundation and guidance for our commitment and approach to ESG principles. In addition, the Committee advances the consideration of ESG risks and opportunities throughout the investment life cycle. We seek to incorporate best practices and industry standards at every stage of an investment, from due diligence and underwriting through monitoring, measuring and reporting. The Committee endeavors to ingrain ESG ideals and the principles of responsible investing throughout Castlelake's culture.\*

\* See endnote 2.

## ESG Committee



**PETE GLERUM**

President  
Executive Sponsor of ESG Committee



**JEFF HILLIGOSS**

Committee Chair &  
Head of Risk Management



**KEVIN HINER**

Committee Secretary &  
Chief Compliance Officer



**MATT LITTLE**

Partner & Co-head of  
Investment Teams, North America



**MOLLY BLEMKER**

Director – Corporate  
Communications



**KEVIN ALLEN**

Associate Director –  
Capital Formation



**ERIC ROEDEL**

Director – Investment  
Operations



**ROSE NEALE**

Managing Counsel



**MAX GOSCH**

Senior Associate –  
Investment Team, Europe



**GEOFFREY BAYERS**

Senior Associate,  
Investor Communications



**CLARE ESCOTT**

Office Manager and  
Administrative Manager

We have taken an interdisciplinary approach, drawing subject matter expertise from across the organization. The ESG Committee members represent a cross section of Castlelake, including compliance, risk management, capital formation, corporate and investor communications, operations, legal and administrative services, as well as investment teams. We chose this cross-functional structure to leverage Castlelake's wide range of diverse expertise, responsibilities and perspectives.

### PROJECT EXECUTION\*

Within the ESG Committee, bespoke project teams focus on four core areas, driving progress by designing and implementing processes and workflows across Castlelake's business segments. These include:

**Underwriting:** Determining standard ESG factors by industry and business line, as well as segregated ESG key performance indicators, risk factors and metrics to simplify ESG reporting and performance analysis

**Process:** Leveraging existing systems and reporting structure obligations to maximize data efficiency and availability, while ensuring alignment with external frameworks

**Training:** Designing and implementing a firm-wide ESG training program

**Organization & Culture:** Executing management company ESG initiatives and acting as vocal and visible champions of ESG integration

From time to time, we draw on external consultants to provide expertise and support to the Committee. We will continue to bolster our governance structure as needed at each stage of our journey.

\* See endnote 2.



# ESG Policy and Management Approach

At Castllake, one of our goals is to help fund the missions of our limited partners. We believe that by including ESG considerations in our investment decision-making, we honor this responsibility and strengthen our ability to deliver differentiated and attractive risk-adjusted returns.

## ESG Policy

Castllake was founded as a values-driven organization where who we are is defined by the fundamental tenets that we strive to uphold daily. Increasingly, ESG management has become a lens through which we see our values in action. Since 2014, Castllake has utilized an ESG policy as part of the investment management process. Through our focus on the linkage between ESG and corporate performance, we continue to strengthen our approach to ESG integration and assessment methodologies. We are committed to continually evolving and refining our ESG Policy and management approach as we deepen our understanding of how ESG factors impact our investment activities.

# ESG Across the Investment Life Cycle



## PRE-INVESTMENT: SOURCING, DUE DILIGENCE AND UNDERWRITING

Against the backdrop of environmental deterioration, changing regulations and shifting socioeconomic dynamics, we evaluate a broad range of ESG factors as part of our sourcing and due diligence processes. Castlelake licenses and applies the Sustainability Accounting Standards Board (SASB) Materiality Map® General Issue Categories in our ESG process and oversight. Importantly, Castlelake's head of risk management, Jeff Hilligoss, also serves as the chair of the firm's ESG Committee and is involved firm-wide in underwriting.

As investors in complex, niche opportunities often involving innovative structures and partnerships with operating partners and co-investors, we leverage our deep industry knowledge to uncover ESG risks and opportunities. When necessary, we will bring in subject matter experts to enhance our understanding of specific ESG issues such as energy management, water management and human rights. Our goal is to systematically analyze relevant and material ESG information across prospective investments to inform the deliberations of the Investment Review Committee (IRC).\*

## POST-INVESTMENT: PORTFOLIO MANAGEMENT AND MONITORING

We bring our hands-on approach to the ongoing management and monitoring of our assets. We regularly engage with our portfolio management teams and partners to address ESG risks and improve outcomes. Issues such as emissions control, energy efficiency and Environment, Health and Safety (EHS) feature regularly in our discussions with joint ventures (JVs) and partners.

Consistent with our data-driven approach to underwriting investments, we are implementing procedures to track ESG key performance indicators (KPIs) across assets to measure and monitor progress over time.\* We employ ESG reputational risk analytics tools including RepRisk™, an ESG dataset built to systematically identify and assess material ESG risks that is used by 17 of the 25 largest investment managers, the world's largest sovereign wealth fund and more than 70 large banks, among others. Using RepRisk™ to assess real-time incidents and risks allows the firm to consider implementing mitigation measures and process or policy changes at the asset level. By doing so at the early stages of the investment review process and throughout the holding period, we believe that we can more effectively manage potential ESG issues and seize opportunities driven by environmental, social or governance factors.

While we have made significant progress in measuring ESG performance\*, we acknowledge the challenges of inadequate and often unreliable ESG data, especially in private markets. We are closely monitoring developments and innovations that enable improved ESG data aggregation and analytics, along with leveraging existing resources to build out our in-house capabilities.

\* See endnotes 2 and 3.

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## Looking Ahead

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### IDENTIFY OPPORTUNITIES WITH POSITIVE IMPACT POTENTIAL

Increasingly, we are identifying and evaluating compellingly priced, positive impact opportunities related to decarbonization and the energy transition that also align with our investment philosophy and areas of core expertise. We expect to leverage this growing opportunity set to increase our pipeline of positive-impact opportunities that align with our risk-adjusted returns criteria.\*

### REFINE AND DEEPEN ESG-INTEGRATION PROCESSES

Through our alignment with industry networks and frameworks such as the UN-supported Principles for Responsible Investment (PRI) and SASB, we continue to closely follow the evolution of global ESG practices to refine and bolster our ESG integration approaches and processes. We will formally apply to be a signatory of the PRI in 2021 and are committing resources to further enhance our ESG underwriting, due diligence and decision-making framework and processes for new investments.\*

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As opportunistic, nimble investors, we follow secular and industry trends and will aim to increasingly limit our exposure to high-ESG-risk opportunities that do not meet our risk-return requirements and compromise our ability to meet our limited partners' ESG goals and address related concerns.

### ENHANCE ESG DATA RIGOR

One of our key priorities in the near term will be building a more robust ESG data management, analytics, reporting and monitoring infrastructure.

We are stepping up efforts to collect ESG data from operating partners by leveraging existing

systems such as iLEVEL, a cloud-based data collection platform, with ESG questionnaires that are tailored to our differentiated investing approaches. We will periodically review the ESG questionnaires to reflect our dynamic research and investigation of the materiality of ESG information.

\* See endnotes 2 and 4.



# — ESG at Work in Our Investment Strategies

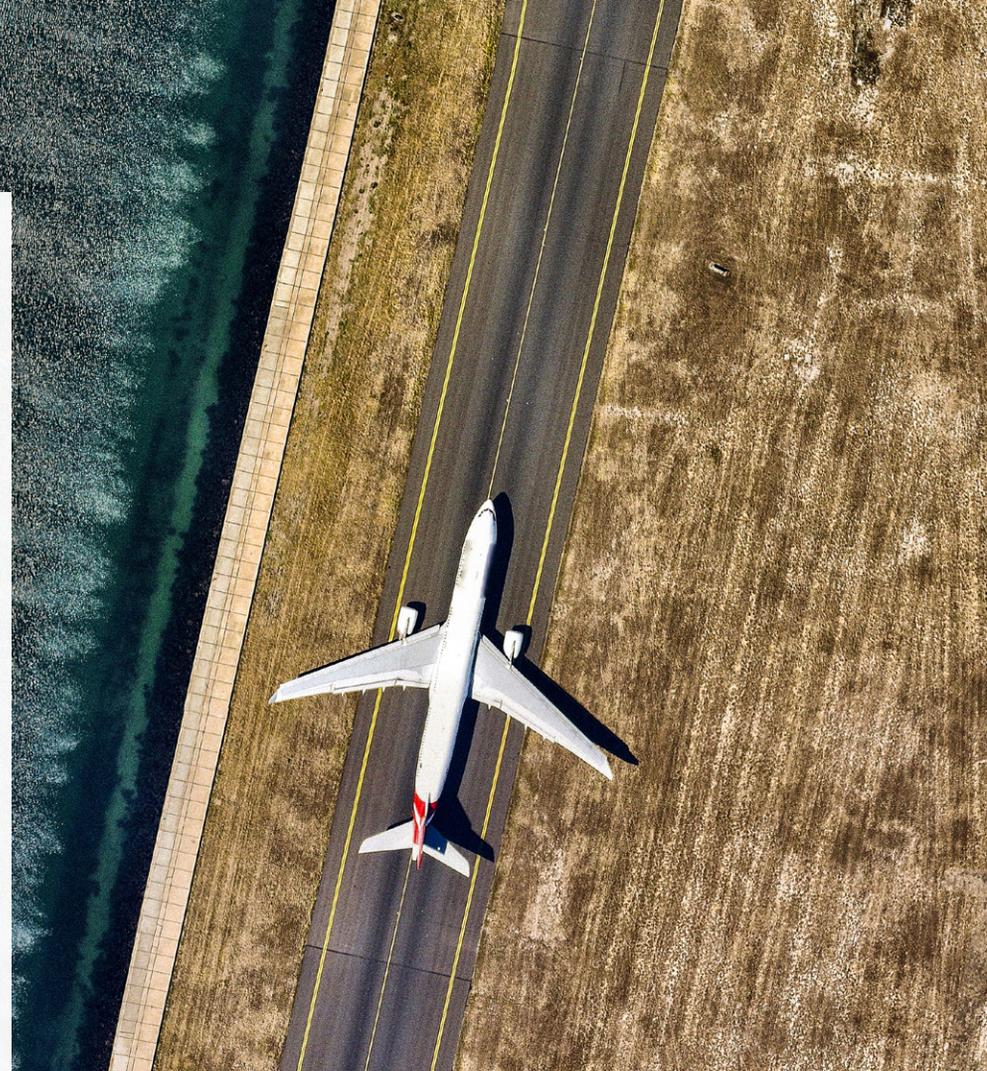
Our diverse investment strategies and structures require highly tailored approaches to ESG integration. We strive to identify the risks and opportunities associated with specific environmental, social and governance factors as they relate to each of our investment strategies.\*

\* See endnotes 3 and 5.

## Aviation

As experienced investors in aviation, we have assumed an active thought-leadership role in shaping the industry's ESG agenda by joining the Aviation Working Group (AWG)'s newly created ESG working group. We have also expanded our aviation finance business to include aviation lending, which seeks to capture an industry-wide dislocation opportunity while providing liquidity critical to commercial aviation's recovery. We built and activated an in-house reporting platform that allows for dynamic and persistent tracking of our fleet's CO2 emissions on both a gross emissions and emissions/seat/flight hour basis (see pages 18-20). As the industry emerges from the COVID-19 pandemic, we will seek to play a role in supporting our partners' energy-efficient, resource-optimized and sustainable recoveries.\*

\* See endnotes 3 and 6.



### HOW WE MAKE A DIFFERENCE

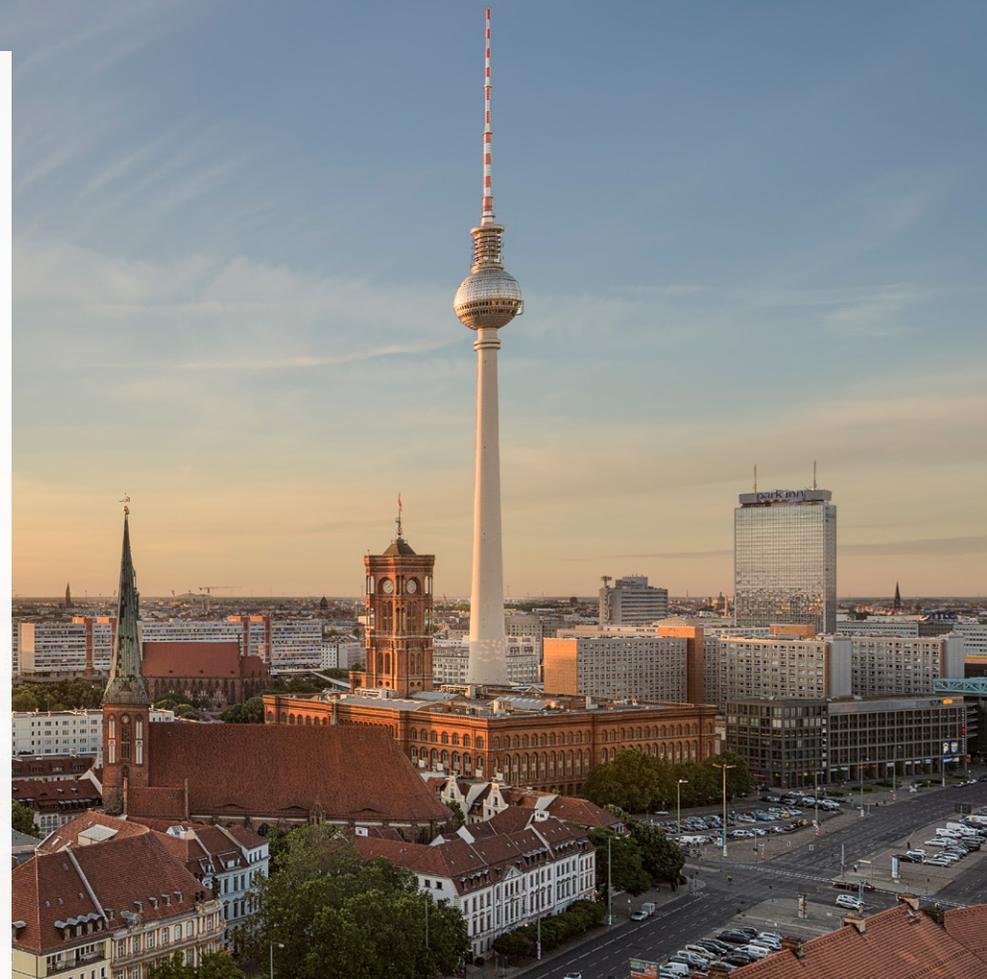
- Provide essential liquidity in a period of distress
- Influence industry ESG standards and benchmarks
- Grow our portfolio of younger, fuel-efficient assets
- Focus on extending lifetime value of assets
- Support next-generation fuel efficiency

## Diversified Assets

Our Diversified Assets portfolio spans multiple asset types across many geographies, requiring bespoke ESG examination and management methodologies. While we acknowledge we are early in the journey for improved integration of ESG principles into our Diversified Assets investment underwriting and portfolio management practices, we are pleased with the progress we've made and are committed to continuous improvement. This includes enhancing our data gathering and due diligence practices, more effectively monitoring our existing assets and seeking to exert influence, when appropriate, on the practices of the operating and JV partners on whom we rely to manage these assets.\*

One of the current activities in Diversified Assets with the most ESG impact is the acquisition and upgrading of affordable housing (see page 22). We believe that Castlelake is one of the few institutional investors active in this essential but capital-scarce segment of the market. We are committed to opportunistically expanding our footprint while engaging with partners and local communities to bring about meaningful, measurable changes to this important sector of the economy.\*

\* See endnotes 2 and 3.



### HOW WE MAKE A DIFFERENCE

- Preserve affordable housing availability with bridge capital to operators
- Emphasize sustainability and energy conservation in development
- Promote community engagement at each property with our operating partners
- Focus on brownfield versus greenfield development

## Specialty Finance

Castlake seeks to systematically embed ESG considerations into Specialty Finance underwriting by adhering to responsible lending norms and ensuring strict governance and compliance due diligence of our operating partners.\* We recognize the role of consumer credit in furthering economic mobility and are pleased to partner with organizations that are at the forefront of delivering credit to underserved segments of the market. We believe credit programs play a crucial role in enabling underbanked individuals to transact in an increasingly cashless financial economy.

\* See endnote 3.



### HOW WE MAKE A DIFFERENCE

- Enable financial access across the income spectrum
- Help consumers and small businesses to rebuild credit records
- Repudiate predatory lending

## Special Situations

Our Special Situations portfolio is composed of a wide range of assets each with distinct ESG attributes and challenges. Instead of a one-size-fits-all framework, we have developed industry-specific ESG integration approaches to attempt to maximize value creation and risk management. In alignment with the global shift toward renewable energy, maturing technology and favorable economics, we continue to bolster our pipeline of opportunities across wind, solar, energy storage and sustainable infrastructure.\* Since 2016, Castlelake's renewables team has acquired 19 wind, solar and hydro generation projects with a combined installed capacity of more than 1.2 GW, providing power for approximately 5 million customers in Brazil, Japan, the U.S. and Argentina.

\* See endnote 1.



### HOW WE MAKE A DIFFERENCE

- Accelerate transition away from carbon-intensive extractive industries
- Strive to adhere to local EHS protocols
- Increase opportunity set of renewable and sustainable infrastructure investments



# ESG Integration in Action

We are pleased to highlight some examples of active ESG integration in our portfolio. Castlelake's investment operations span many industries and geographies, and we look forward to expanding ESG integration in the coming years.

## Our Commitment to the Aviation Industry

Castlelake greatly values its tenure and relationships within the aviation industry. Since our founding<sup>1</sup>, we have deployed \$15 billion in the sector and acquired more than 650 aircraft. Our airline partners provide significant employment opportunities in their regions of operation around the world. Travel and tourism support nearly 7 million jobs in the Gulf Cooperation Council region alone, where we have some of our oldest operating partnerships and approximately 16 percent of our current aviation portfolio. We take the responsibilities of our industry position seriously and recognize our ability to help the industry address the chronic crisis of climate change and recover from the ongoing COVID-19 pandemic. We outline each of these areas in more detail on the following pages.

<sup>1</sup>. Includes debt and equity invested across private market funds and vehicles managed by Castlelake from inception in 2005 to September 30, 2020.

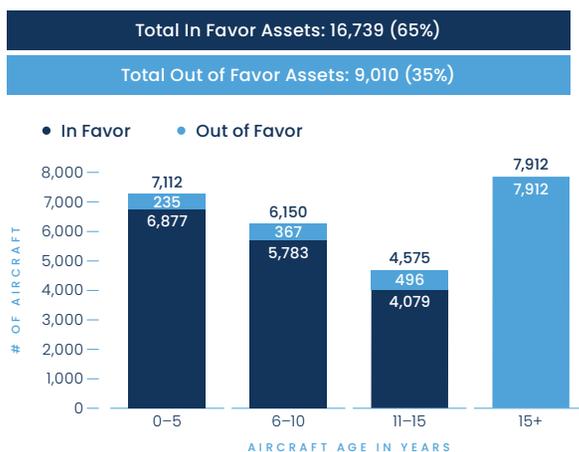
## ADDRESSING A CARBON-CONSTRAINED FUTURE<sup>1</sup>

At Castlelake, we recognize the need to lower emissions and are committed to measuring the carbon footprint of our aviation fleet while aiming to enhance resource efficiency and operational technology, both at our firm and across the industry.\* We are engaged members of the AWG, a not-for-profit entity comprised of major industry participants that contribute to the development of new policies, laws and regulations.

Along with our peers within AWG’s ESG working group, we are developing metrics, methods, emissions tracking and reporting at the intersection of aviation financing and leasing. One of the most notable outputs of the AWG will be the launch of a carbon calculator in Q1 2021. Using manufacturer data, this tool will calculate emissions of aircraft and fleet portfolios based on standard aircraft configurations, typical utilization and stage lengths.

In 2019, the civil aviation sector emitted around 915 million tons of CO<sub>2</sub>, which is a little more than 2 percent of carbon emissions created by humans. Earlier in 2020, Castlelake embarked on a project to calculate and monitor the emissions trajectory of our fleet of

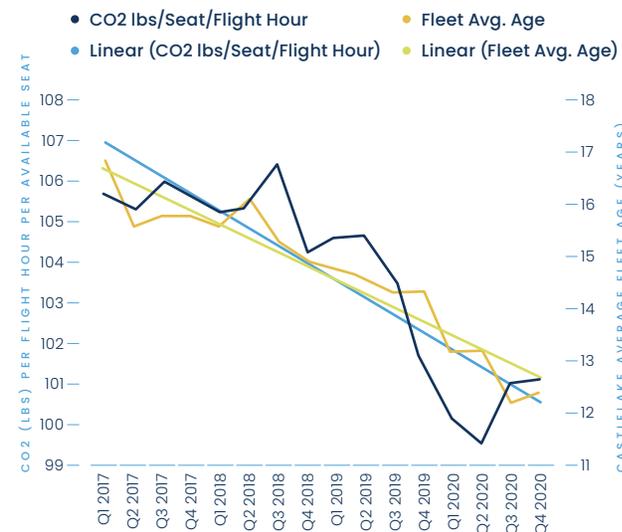
Global Fleet Analysis (As of June 30, 2020)



aircraft that are owned and/or managed by Castlelake funds.\*

Concurrently, driven by a combination of strategic and ESG factors, we have purchased and financed a variety of younger aircraft over the past few years. Notably, the investment rationale behind our 2016 Castlelake Aviation III Stable Yield fund was to capitalize on the favorable economics and markedly better fuel efficiency of aircraft aged between four and 13 years. As we develop our aviation lending strategy, we

## Castlelake’s Fleet has Become Younger and More Fuel Efficient



foresee the opportunity to finance new, more energy-efficient, next-generation aircraft.\*

Our actions to reduce emissions, improve resource efficiency and closely monitor operational and technological improvements will be guided in part by the thinking and recommendations of bodies such as the AWG and International Air Transport Association (IATA). We expect to engage with industry partners to work toward IATA’s goal of net reduction in aviation CO<sub>2</sub> emissions of 50 percent by 2050, relative to 2005 levels.

1. Charts based on internal Castlelake data as calculated by Castlelake management using estimates and assumptions believed to be reasonable in the circumstances.

2. Air Transport Action Group, <https://www.atag.org/facts-figures.html>

\* See endnotes 1, 3 and 6.

When designing our climate action roadmap, these four pillars of IATA's climate goals will be our guide:

1. Improved technology, including the deployment of sustainable aviation fuels
2. More efficient aircraft operations
3. Infrastructure improvements, including modernized air traffic management systems
4. A single global, market-based measure to fill the remaining emissions gap

Castlelake is committed to funding the evolution of the aviation industry as it moves in a more sustainable direction. We will seek to actively engage in the conversation and educate ourselves and the marketplace on emerging best practices and technological innovations aimed at aligning with global efforts to combat climate change.

### COPING WITH COVID-19

The aviation industry has suffered asymmetrically from the unprecedented global economic impact of the COVID-19 pandemic, prompting an industry-wide reckoning and introspection of aviation's future. With macro uncertainty looming large and fleets grounded, traditional financing channels came under duress. As high-



conviction investors, Castlelake stepped up to the challenges of 2020 by providing liquidity solutions to our carrier partners in the form of sale leaseback, debt buybacks and lending.\*

As outlined previously, in recent years there has been increasing scrutiny of the aviation industry's sustainability practices with a focus on carbon emissions and energy management. The pandemic has accelerated shifts within the industry, and movement toward cleaner fuels and higher energy efficiency are priorities for the sector as it charts its recovery. We intend to contribute to the development of the post-COVID-19 aviation conversation and agenda regarding action on climate change.\*

As the global fleet has continued to age over the past several years, the economic fallout stemming from COVID-19 has proved to be a catalyst in motivating airlines to retire older, inefficient aircraft and replace their aging fleets

with energy-efficient, next-generation aircraft. As this shift occurs across the aviation industry, we will continue to work toward improving emissions performance and fuel efficiency across our fleet, as well.\*

### PANDEMIC AIRCRAFT CONVERSION

In the wake of the economic fallout induced by COVID-19, a German charter airline wanted to convert several passenger aircraft into freighters in order to reestablish cash flow generation for its grounded aircraft. Castlelake, as the owner of seven of the aircraft that were reconfigured, worked diligently alongside the airline to provide approval so the aircraft could be converted quickly. Not only did we strengthen our relationship and position with a valued business partner during a challenging time, but the airline also used reconfigured aircraft to transport critical supplies including personal protective equipment (PPE).

\* See endnote 6.

## INVESTMENT PROFILE: RENEWABLE ENERGY

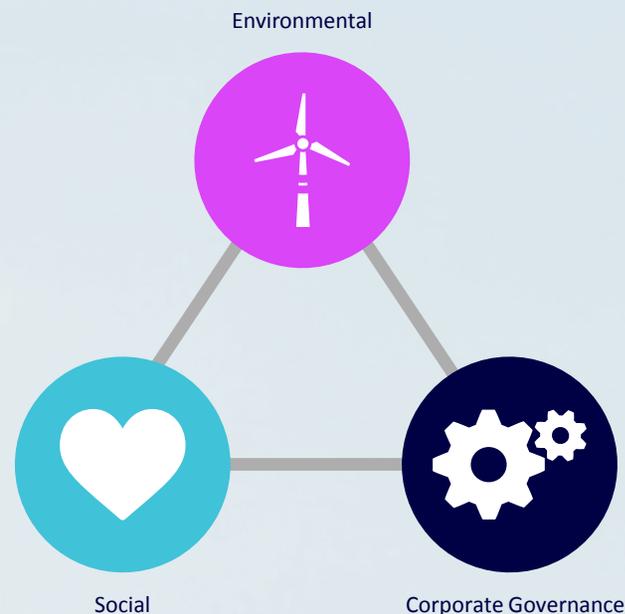
# Brazilian Renewable Energy Platform

Castllake has partnered with one of Brazil's largest renewable energy companies, composed of a portfolio of operating wind and hydroelectric power plants and a pipeline of wind and solar projects under development.

Castllake first invested in the company in 2018 and became its controlling shareholder in 2020. Through our controlling position, Castllake has been able to guide and enhance the company's mission to produce sustainable energy while generating employment, building healthy, vibrant communities and creating attractive financial returns.

We believe that the company is poised to benefit from rapid growth propelled by the accelerated decarbonization trend and Brazil's move toward a more diversified electricity mix to meet growing demand and reduce reliance on traditional fossil fuel-fired generation.\* We are excited to be partners on the company's journey of growth and innovation.

\* See endnotes 2, 6, 7 and 8.



### THE COMPANY AT A GLANCE

- 0.8 GW of total capacity serving 7.2 million people
- 0.5 GW installed wind capacity
- 1.2 GW of wind and solar capacity under development
- Asset efficiency – Globally top quartile capacity factor
- Reforested 9 million m<sup>2</sup> of land
- Commitment to supporting local educational and cultural institutions
- Focus on preserving biodiversity and waste management
- Joined UN Global Compact and formally committed to its 10 principles

INVESTMENT PROFILE: AFFORDABLE HOUSING

# Ohio Section 42 Housing Community

In the U.S., more than four-fifths of the households earning less than \$25,000 are housing insecure, and the availability of affordable housing units has not kept pace with the demand. Of the available rental units in the U.S., only 7.3 million rental homes are affordable to extremely low-income renters, creating an absolute shortage of 3.6 million affordable rental homes for extremely low-income renters.<sup>1</sup>

Castllake has chosen to invest in affordable housing assets with a primary focus on maintaining existing affordable inventory by providing bridge capital to affordable housing operators who share the same preservation goal. Our portfolio is composed of affordable multifamily properties, which operate under project-based federal Section 8 contracts and were eligible for low-income housing tax credit (LIHTC) redevelopment.

One of our partners is an affordable housing developer that manages more than 3,000 units in the U.S. The developer plans to redevelop the properties with a combination of LIHTC and long-term fixed-rate financing to preserve their affordability for at least the next 15 years. This investment will allow the developer to prepare the assets for the extensive redevelopment and placement in the Section 42 low-income housing compliance program, which is core to preserving the current inventory of affordable housing supply.\*

The pandemic's economic impact has exacerbated the inequity of housing access. Castllake is committed to long-term investments that optimize value while creating well-managed, thriving communities.

1. Source: [https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_The\\_State\\_of\\_the\\_Nations\\_Housing\\_2020\\_Report\\_Revised\\_120720.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2020_Report_Revised_120720.pdf)

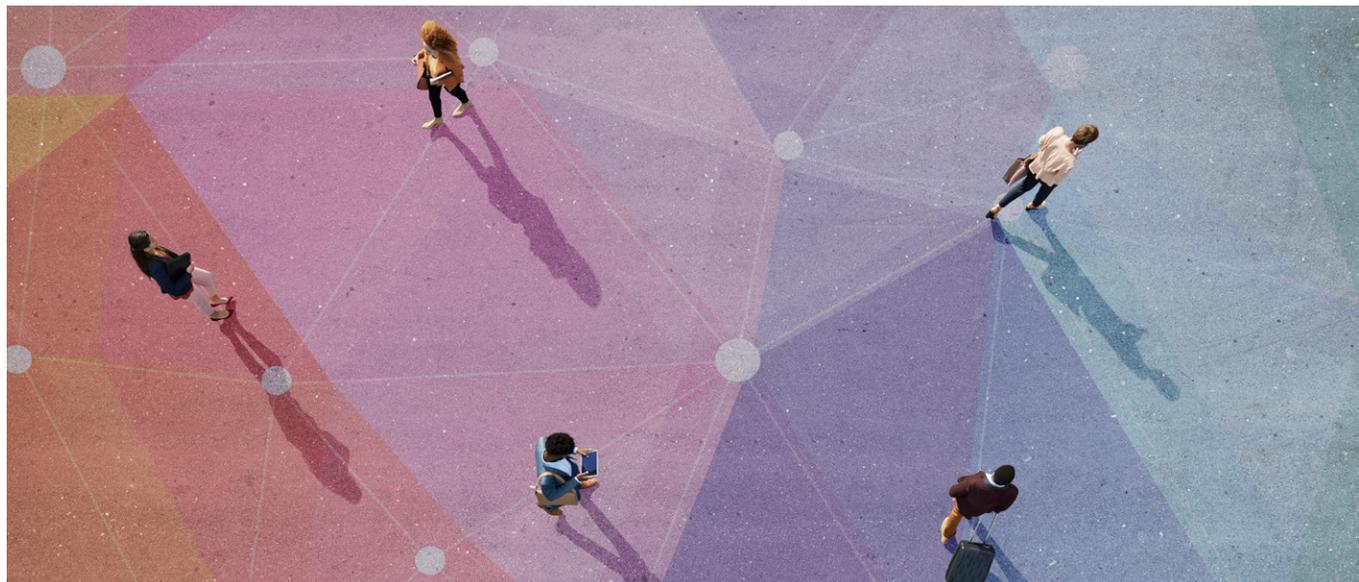
\* See endnotes 4, 6, 7 and 8.



# Building a More Diverse and Inclusive Firm

Throughout 2020, we have worked to further embed our adherence to ESG principles and processes, not only in our investment activity but also within Castlelake's culture, operations and hiring practices. As a foundational step, we established a formal committee in 2018 to advance our diversity and inclusion efforts.

Our Diversity & Inclusion Committee consists of 16 employees in Minneapolis, New York, London and Dublin, including four Castlelake partners. Its mission is to drive deeper employee engagement, better decision-making and stronger performance for Castlelake's stakeholders. As part of our 2020 efforts, we:



- Expanded our approach to embedding inclusion in our processes and activities through training, partnerships, recruiting policies and reporting, and specifically have:
    - Refined Castlelake's Diversity & Inclusion (D&I) roadmap to develop company best practices as we advance our larger D&I mission, strategy and initiatives – particularly around talent recruitment and retention
    - Expanded D&I training and education for all employees including unconscious bias training, D&I performance evaluations, management training and employee pulse surveys
  - Updated work programs to include flexible working and family-friendly policies, including:
    - Expanded maternity and paternity leave and emergency child-care assistance
    - Designed inclusive workspace features, such as quiet and mothers' rooms and breast milk shipping
    - Offered each employee a \$500 allowance to accommodate productive work-from-home environments
- To ensure we work steadily toward our goals, we have committed to tracking our progress and look forward to increasing collaboration between our ESG and D&I committees.

# Responsible Corporate Citizenship

Our Employee Engagement and Community Committee is composed of a global constituency of 19 Castlelake employees in Minneapolis, London, Dublin and Singapore. Using Castlelake's founding principles as a guide, the committee strives to build strong partnerships with both global and local organizations that share our values and can help amplify our work.

In 2020, we launched our Community Engagement Strategy, **"Prevent, React, Rebuild,"** which helps fortify communities by addressing the needs of struggling families, homelessness, environmental protection and disaster relief through preventative measures, immediate response and longer-term recovery support. These initiatives are often closely aligned with the areas in which we invest. For example, we've partnered with various high-impact organizations, including:



- **Footprint Project**, which works with local governments to plan and provide renewable energy to underserved communities in crisis or following a disaster
- **Airlink**, which works with aviation and logistics partners to transport relief workers and emergency supplies to rapid-onset disasters and other humanitarian crises around the globe

We've grown our outreach in our hometown of Minneapolis through numerous direct efforts and partnerships. A few examples include:

- Coordinating employee and corporate giving to local organizations like the **Minneapolis Foundation**, which cultivates generosity by driving action for the greatest civic, social and economic needs in the community

- Organizing a company-wide food and essentials drive in response to civil unrest in our community
- Co-chairing and launching the Twin Cities chapter of **Private Equity Women Investor Network (PEWIN)**

Beyond our hometown outreach, we continue to develop our global philanthropic efforts, including through our engagement with **Junior Achievement Ireland** and **Level 20**.

We are continually inspired by the passion the Castlelake community brings to social good initiatives in their personal lives and at work. Harnessing the entrepreneurial spirit of our global team, we will continue to broaden our efforts to leverage our skills and resources to support communities in need.



# The Journey Continues

We have ambitious plans to advance our ESG strategy throughout 2021 and beyond. Led by Castlelake's ESG Committee and our interdisciplinary project teams, we are dedicated to building consistently on our ESG infrastructure and improving over time. As with any journey, if you want to go fast, go alone; but if you want to go far, go together. It is in this spirit that we look forward to engaging our partners throughout each stage of this journey and believe we can have the greatest impact when we advance together.

## Endnotes and Disclosures

This is the first year that Castllake has published a report on our responsible investing approach. We prepared this report so that our key stakeholders can stay informed, track our progress and support our economic, environmental, social and governance progress.

### GUIDING FRAMEWORKS

We seek to align our reporting efforts with leading global reporting frameworks and standards. The contents of this report are informed by the Principles for Responsible Investing and the Global Reporting Initiative Standards.

### ENDNOTES

1. There can be no assurances that targeted investment/portfolio characteristics will be met or that Castllake will be successful in finding investment opportunities for such funds that meet these anticipated parameters. Target investments are expected to generally meet these parameters, but investments are not solely constrained to these parameters.
2. There is no assurance that projections or estimates of future performance will be realized.

3. Certain information has been obtained from third-party sources, which Castllake believes to be reasonable for the purposes used herein. However, Castllake assumes no responsibility for the accuracy or completeness of such information and acknowledges the challenges of inadequate and often unreliable ESG data.
4. There can be no assurance any projected or pipeline opportunities will be consummated nor that any such investments will result in positive returns.
5. Calculations or data may be based on internal Castllake data as calculated by Castllake Management using estimates and assumptions believed to be reasonable in the circumstances.
6. The full impact of COVID-19 is particularly uncertain and difficult to predict and may substantially and adversely affect future performance and Castllake's execution of its strategy.
7. Indicative transactions are provided as an illustration of certain characteristics of the marketplace in which Castllake has investing experience and in which Castllake has, or expects to, deploy

capital. Information herein includes forward-looking statements such as estimates, projections, forecasts, targets and other similar information. There can be no assurance any forward-looking statement or results will prove accurate, other investments will exhibit similar characteristics or that expected investment opportunities will indeed be available.

8. This indicative transaction is provided as an illustration of certain characteristics of the investments in which Castllake has experience and in which Castllake does, or desires to, deploy capital. There can be no assurance that Castllake will be successful in finding similar investment opportunities or that any such current or future investments will result in positive returns. Past performance is not an indication or guarantee of future results and there can be no guarantee that historical trends will continue. The full impact of COVID-19 is particularly uncertain and difficult to predict and may substantially and adversely impact future performance and Castllake's execution of its investment strategy.

## Legal Disclaimer

The information contained herein (the "Presentation") is being made available regarding Castlflake, L.P. ("Castlflake") and its efforts on environmental, social, and governance performance.

All statistics are as of September 30, 2020, unless otherwise indicated.

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All historical statements concerning past investment activities, experience and performance contained in the Presentation refer to the Castlflake Funds referenced within such statement. Information specific to a Castlflake Fund or account managed by Castlflake is available upon request. The market analysis, any targeted returns, estimates and similar information including all statements of opinion and/or belief contained herein are subject to inherent uncertainties and qualifications and are based on a number of

assumptions and no assurances are made such can or will be realized. Any case studies or sample transactions contained in the Presentation are for illustrative purposes only, and they are not intended to present a comprehensive synopsis or a representative sample of past performance results achieved by current members of the Castlflake team and may not be relied upon as a promise, prediction or projection of future performance. There is no representation that such investment or similar investment is currently held or will continue to be held by any Castlflake Fund or that such position is, was or will be profitable. Past performance is not necessarily indicative of future results, and no assurance can be given that investment objectives will be achieved. The composition of past performance for various Castlflake Funds differ significantly and any returns are provided for reference information only. The full impact of COVID-19 is particularly uncertain and difficult to predict but may have an adverse effect on the future aggregate investment performance of each Castlflake Fund and will likely have an adverse effect on certain of the individual investments therein. Please refer also to additional documents contained in the Fund Data Room (or available upon reasonable request) for more detailed information relating to the performance and cash flows of individual investments contained within each of Castlflake Aviation I, L.P., Castlflake I, L.P., Castlflake Aviation II, L.P., Castlflake II Opportunities, LLC, Castlflake II, L.P. and Castlflake II Opportunities, L.P., Land Opportunities, L.P., Castlflake III, L.P., Castlflake IV, L.P., Castlflake Aviation III Stable Yield, L.P., Castlflake V, L.P., Castlflake Income Opportunities I A, L.P. and Castlflake Income Opportunities I B, L.P., Castlflake Aviation IV Stable Yield, L.P. and Castlflake Aviation IV Stable Yield Opportunities, L.P., and Castlflake V Dislocated Opportunities, L.P. (collectively with any current or future funds or vehicles managed by Castlflake, "Castlflake Funds").

The reported impact of initiatives provided in this Presentation is based on internal analysis of Castlflake and information provided by the applicable portfolio company. Impacts of such initiatives are estimates that have not been verified by a third party and are not necessarily reported according to established voluntary standards or protocols. Castlflake does not guarantee the accuracy, adequacy, or completeness of such information. They may also reflect the influence of external factors such as macroeconomic or industry trends. There is no guarantee that results shown will be replicated in the future and actual results may be better or worse in future years.

## Legal Disclaimer (Continued)

Certain information contained in this Presentation is not purely historical in nature but constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “target,” “project,” “estimate,” “intend,” “continue” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. These statements may include, among other things, projections, forecasts, estimates, view on the economy or markets, and specific trade ideas and investment strategies. These forward-looking statements are based upon certain assumptions and are necessarily speculative in nature. The assumptions upon which forward-looking statements are based may not be stated in this Presentation. Due to various risks and uncertainties, actual events or results or the actual performance of the relevant Castlelake Fund may differ materially from those reflected or contemplated in such forward-looking statements. All forward-looking statements included are based on certain information available to Castlelake on the date of this letter and are subject to change without notice. Castlelake does not assume any duty to update any forward-looking statement. Investors in the relevant Castlelake Fund should not rely on these forward-looking statements in deciding whether to invest in such fund. All statements, including forward-looking statements and discussions of the business environment and investment strategy of Castlelake and the Castlelake Funds included herein are subject to the impact of the ongoing COVID-19 outbreak, which may substantially and adversely impact Castlelake’s or the Castlelake Funds’ execution of their investment strategies and which has introduced a number of known and unknown risks and uncertainties into the business of Castlelake and the Castlelake Funds.

The companies included in the case studies which are meant to be illustrative of certain characteristics of the marketplace in which Castlelake has investing experience. The determination and assessment by Castlelake of which investments to include involves significant judgment and may differ from another party’s review of Castlelake’s investments. Another party’s assessment may exclude certain illustrative examples or include comparable illustrative examples not represented.

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provided by the applicable third party sources. The information herein is not intended to address the circumstances of any particular individual or entity and is being shared with you solely for informational purposes.

References to targeted or expected characteristics of investments, portfolios or Castlelake Funds are also provided as indicators as to how general insights into Castlelake’s objectives, anticipated risk profiles of each product line and as to how Castlelake intends to manage the Castlelake Funds and are not intended to be viewed as indicators of likely performance returns to investors. There can be no assurances that these characteristics will be met or that Castlelake will be successful in finding investment opportunities that meet these anticipated parameters. Investments are generally expected to generally meet these characteristics, but investments are not solely constrained to these characteristics. In addition, descriptions of investment pipelines or indicative transactions are provided as an illustration of certain characteristics of the marketplace in which Castlelake has investing experience and in which Castlelake currently anticipates that it may have an opportunity to deploy capital. There can be no assurance these descriptions of investment pipelines or indicative transactions will prove accurate or that anticipated investment opportunities will indeed be available. Further, there can be no assurance any investment pipeline or indicative transaction opportunities will be consummated nor that any such investment will result in positive returns.

Aggregate, composite and cumulative investment performance data herein represents aggregate data across multiple Castlelake Funds. However, such investments were made during different economic cycles and any such performance reflects neither a specific Castlelake Fund nor a group of investments managed as a single portfolio. The actual return realized by any investor may vary based on the timing of capital contributions and distributions and may differ materially from the returns reflected or contemplated in the composite data presented in this Presentation. No individual investor has received the investment performance indicated by such aggregate, composite or cumulative performance data.

In this Presentation, views and other statements regarding the impact of initiatives in which Castlelake has been involved are based on Castlelake’s internal analysis and information provided by the applicable portfolio company. Such views and statements

are based on estimates regarding the impact of such initiatives that have not been verified by a third party and are not based on any established standards or protocols. They can also reflect the influence of external factors, such as macroeconomic or industry trends, that are unrelated to the initiative presented.

References to external consultants are to individuals who are engaged, as consultants, to assist Castlelake with sourcing or developing ESG investment ideas and a variety of other matters. These individuals are not employees of Castlelake. The portion of the compensation paid to these external consultants that is related to fund activities, such as sourcing investments or monitoring portfolio companies, may be borne by the relevant funds.

References to “assets under management” or “AUM” represent the assets managed or advised by Castlelake from which Castlelake is entitled to receive a fee or carried interest.

Castlelake is committed to advancing our ESG journey over the coming years. We welcome the opportunity to discuss our efforts and learn from you. Please contact us at [investor.relations@castlelake.com](mailto:investor.relations@castlelake.com).



#### **MINNEAPOLIS**

4600 Wells Fargo Center  
90 South Seventh Street  
Minneapolis, MN 55402  
**+1 612 851 3000**



#### **NEW YORK**

510 Madison Avenue  
24th Floor  
New York, NY 10022  
**+1 917 229 5300**



#### **DALLAS**

100 Crescent Court  
Suite 825  
Dallas, TX 75201  
**+1 214 416 7321**



#### **LONDON**

15 Sackville Street  
London W1S 3DJ  
**+44 207 190 6100**



#### **DUBLIN**

First Floor  
Hume Street  
Dublin 2  
Ireland  
**+353 1 567 8930**



#### **SINGAPORE**

Suite 2089  
One Fullerton  
#02-01 1 Fullerton Road  
Singapore 049213  
**+65 6576 5541**

