

A Message from Our CEO



To our stakeholders,

Central to Castlelake's ethos is a deep commitment to continuous improvement and evolution to meet the needs of those who have entrusted us to manage capital on their behalf. Further, we as global citizens firmly believe we have a broader responsibility to do what is right and be a part of the solution. Over the last year, this commitment and sense of responsibility has motivated us to further our efforts related to environmental, social and governance (ESG) initiatives in our investment process and across our organization. We believe this work is inseparable from our ability to serve our investor, employee and community stakeholders, and our ability to demonstrate that our core values are more than just words on a page but practically applied in our daily work.

As stewards of long-term capital, we maintain a keen focus on shifts in the global macroeconomic environment that impact investment risk and opportunity. From an environmental perspective, one key development that Castlelake monitored closely this year is the accelerating migration toward a decarbonized economy. We believe it is imperative to weave this knowledge into our investment philosophy and criteria, using it to help inform which opportunities we pursue, and leveraging it to generate value for our investors.

Greenhouse gas (GHG) emissions reduction commitments are clear evidence of the migration toward a decarbonized economy. We believe that measurement and reporting are foundational to enabling our own emissions reduction journey and supporting that of our investors, so these are high priorities for our firm. There are several frameworks and tools we are in various stages of evaluating, implementing, or using to enhance measurement and reporting of GHG emissions. For example, we are in the process of analyzing a carbon accounting tool to automate data collection across our diverse asset portfolio and calculate or credibly estimate the GHG emissions of our management company operations and the funds we manage. This tool would enable Castlelake to better understand its baseline and set realistic milestones for emissions reduction as well as informing our go-forward investment strategy and potential reduction commitments. This work is incremental to the systematic

approach to acquiring data about the environmental, social and governance impacts and risks associated with our existing portfolio that we have already implemented. While the diversity of our funds' portfolios presents some challenges to the consistent measurement of this data, we are committed to leveraging the Task Force on Climate-Related Financial Disclosures (TCFD) frameworks to inform our approach and conforming to global standards.

We expect sovereign and corporate net zero commitments to cause significant infrastructure and asset replacement for decades to come and know that many decarbonization pathways require significant support from private capital. A recent analysis from the UN Climate Change Conference indicated that private finance could provide over two-thirds of the \$2.6 trillion of investment needed every year to put the world on a path to net zero by 2050. We will seek to do our part as investors who specialize in asset-rich opportunities.

At the same time, these trends are already having a meaningful impact on capital flows and are driving down the cost of capital in certain market segments that we find attractive. We're following these developments closely as we work to contribute to positive change and have developed new capabilities to enable us to continue sourcing attractive opportunities to generate returns for investors that, in certain circumstances, are aligned with our mutual desire to have a positive impact.

From a social perspective, 2021 was a year in which we focused on developing sustainable programming and measurement mechanisms that help us maintain efforts to enhance diversity, equity and inclusion on a consistent and long-term basis. As we communicated to our stakeholders in 2020, this work is ongoing, and we believe we must maintain a high degree of awareness and vigilance to have a lasting impact.

Our belief that diversity of thought drives better investment and operational outcomes remains as strong as ever and supporting diverse voices and opinions remains

an important emphasis. At Castlelake we regard social and governance initiatives as closely intertwined. In our efforts to improve governance, we work to ensure that our key decision-makers at the firm represent a variety of functions, experiences, tenures, and backgrounds. In addition, we're focused on pairing informal and formal feedback loops, as well as grassroots-style programming, with structured trainings to increase accountability internally.

In 2020, I acknowledged that Castlelake's ESG journey was in its foundational years. I hope last year's inaugural ESG Report underscored our firm commitment to making steady progress in these areas. Here in our second annual ESG Report, we hope to highlight some of that progress and provide an update on where we stand in our journey. Some of the year's accomplishments that I'm particularly proud of include the meaningful advances we've made on measurement, reporting and engagement priorities. We've collected and analyzed ESG-related data across our portfolio; more deeply embedded ESG considerations and KPIs into our investment underwriting and management process; and further built out our ESG, DEI and Social Responsibility programs—some of which I alluded to above.

Over the longer term, we're considering several ESG-related initiatives that we believe will position us as responsible and active participants in this critical period for our world and industry, and I look forward to keeping you updated on our progress.

The journey ahead of us is long and there is much more to do. But we remain firmly committed to this path and hope this report demonstrates our fidelity to transparency and accountability along the way. As we proceed, we encourage our partners to continue this conversation with us as we advance together toward a more sustainable investing future.

Rory O'Neill

CHIEF EXECUTIVE OFFICER
& MANAGING PARTNER

