



# 2022 RESPONSIBLE INVESTMENT AND SUSTAINABILITY REPORT



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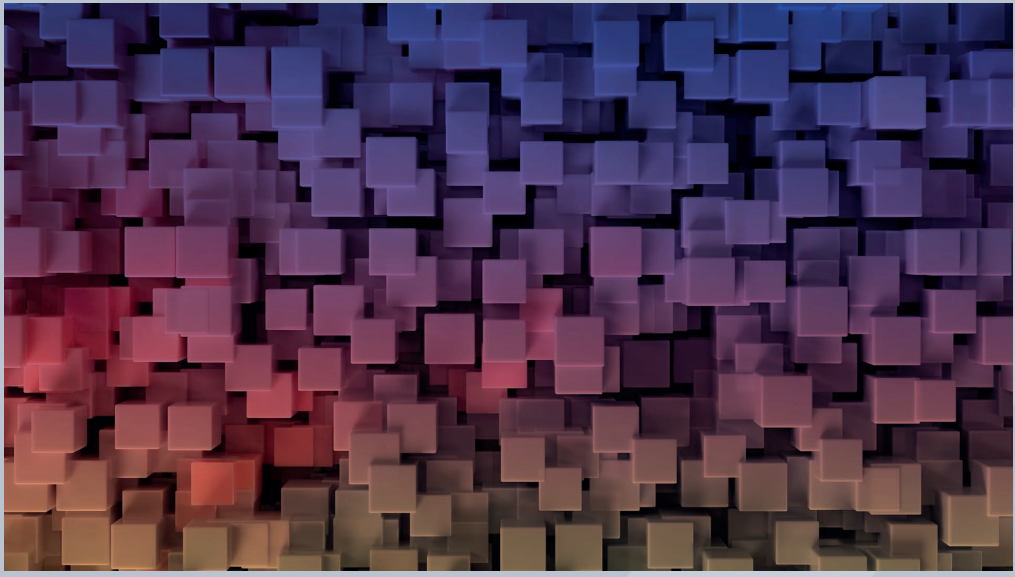
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01

# LETTER FROM THE CO-FOUNDERS





# LETTER FROM THE CO-FOUNDERS

We are proud to share how Canyon is actively advancing our commitment to responsible investing and shaping a sustainable future in Canyon's second annual Responsible Investment and Sustainability Report. Our 2022 accomplishments highlight the firm's approach to translating this commitment into action.

Recognizing the current developments in the energy transition, we updated our sustainable investing strategy to advance energy companies and assets that are meaningfully shifting from fossil fuels to clean energy. This evolution of our strategy is grounded in a forward-looking investment philosophy, which seeks a more nuanced understanding of how decarbonization is unfolding in the global transition to a low-carbon economy.

In a crucial step toward enhancing our analyses and accountability, last year, Canyon's ESG committee established a subcommittee to review internal ESG ratings for investment. Our process includes an open dialogue that

engages the investment team, cultivating a peer-to-peer discourse aimed at developing a broader understanding and acknowledgement of the business significance and material impacts of ESG factors.

We have also expanded our commitment to prominent industry initiatives, namely by joining SBAI's responsible investment working group and by signing on to the CFA Institute Diversity, Equity, and Inclusion Code. These commitments also codify our dedication to advance industry standards.

We remain committed to continuing to learn from our partners and to growing our commitment to sustainability and responsible investment. As always, we are grateful for your continued trust and partnership.



**Joshua S. Friedman**  
Co-Founder,  
Canyon Partners



**Mitchell R. Julis**  
Co-Founder,  
Canyon Partners





## ABOUT THIS REPORT

Our annual Responsible Investment and Sustainability Reports communicate our efforts toward continuous improvement. This year, in our second report, Canyon discusses data collection enhancements that support our ESG analysis; results of recent stewardship efforts; and provides examples of investments from our sustainable investment hedge fund. Through these reports, along with our participation in industry disclosure standards, we commit to holding ourselves and our responsible investing practices accountable.





# 02

## CANYON IN BRIEF

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**03** About the Firm

**05** Firm Ethics and Governance





# ABOUT THE FIRM

Canyon Partners, LLC (“Canyon,” or the “firm”), is a leading global alternative asset management firm with offices in the U.S., UK, China, Hong Kong, and Japan. The firm has a long history as a value-oriented special situations investor and provider of bespoke financing solutions across corporate credit, structured credit, and real estate. We seek to capture excess returns utilizing specialized expertise, rigorous research capabilities, and the ability to underwrite complexity.

Canyon has employed this approach to create value and deliver attractive risk-adjusted returns for its investors for over 30 years. We offer a suite of products designed to fit the investment objectives of a broad range of investors globally.

“Canyon’s mission statement and values guide our investment approach and how we operate as a firm.”



OUR MISSION



OUR VALUES

Cultivating long-term partnerships through alignment, collaboration, and investment rigor.

**LEARNING**  
We approach our work with curiosity, humility, and diligence.

**INSIGHT**  
Complexity is an opportunity.

**JUDGMENT**  
The alignment of objectives and incentives guides decision-making.

**COLLABORATION**  
Delivering value through partnership, teamwork, and creativity.

**ENGAGEMENT**  
We seek to provide leadership and support to our community.

## By the numbers

1990

FOUNDED BY JOSH FRIEDMAN AND MITCH JULIS

200+

EMPLOYEES

\$24+ BN

ASSETS UNDER MANAGEMENT

7

OFFICES WORLDWIDE



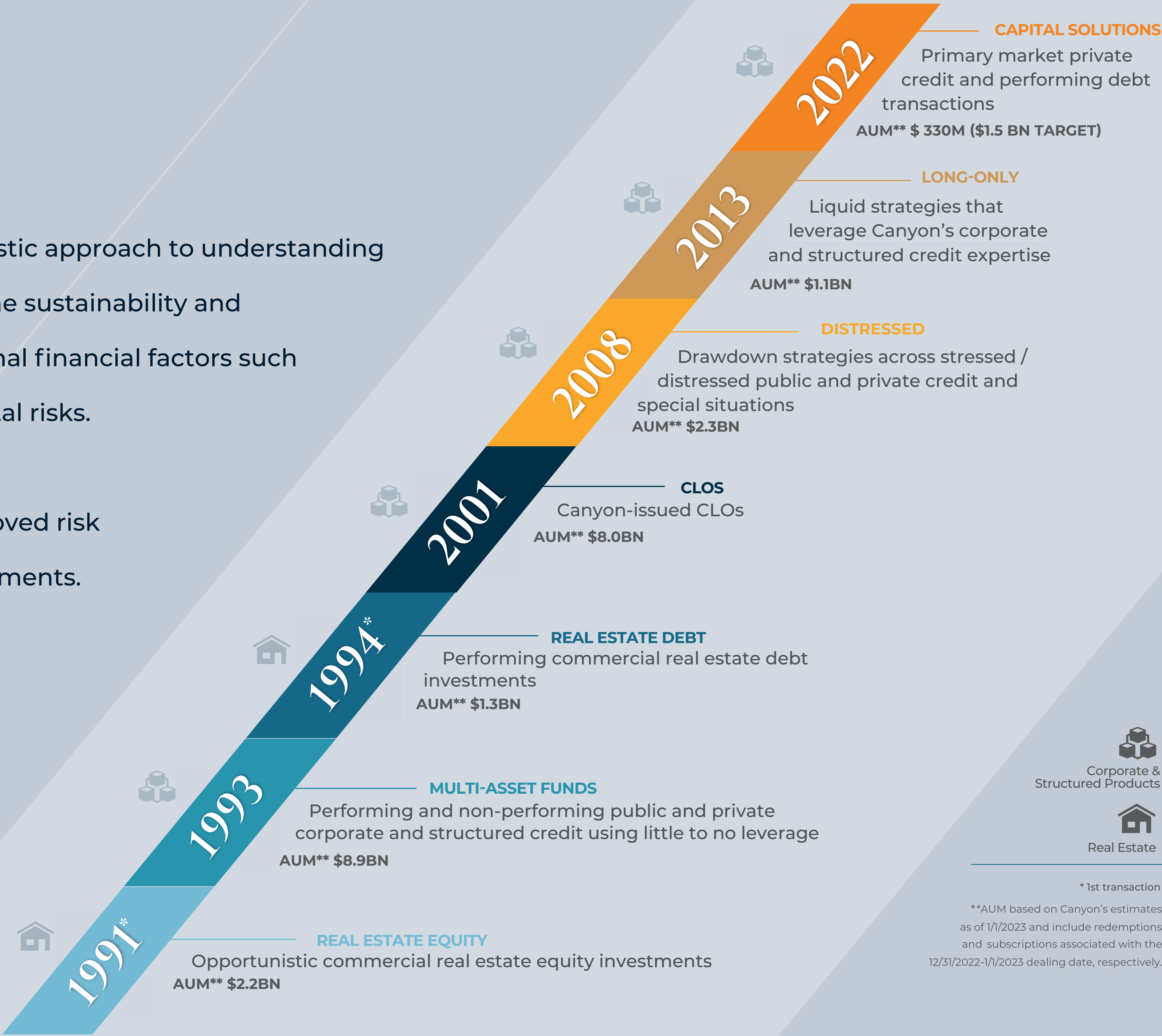


ABOUT THE FIRM

WHAT RESPONSIBLE INVESTING MEANS AT CANYON

Aligned with our long-term investing lens, we apply a holistic approach to understanding risk and return drivers across our portfolios. To measure the sustainability and durability of a specific investment, we assess non-traditional financial factors such as human capital, governance concerns, and environmental risks.

Our approach is rooted in generating value through improved risk management to benefit both our investors and our investments.



\* 1st transaction  
\*\*AUM based on Canyon's estimates as of 1/1/2023 and include redemptions and subscriptions associated with the 12/31/2022-1/1/2023 dealing date, respectively.





# FIRM ETHICS AND GOVERNANCE

## BUSINESS ETHICS AND COMPLIANCE OVERSIGHT

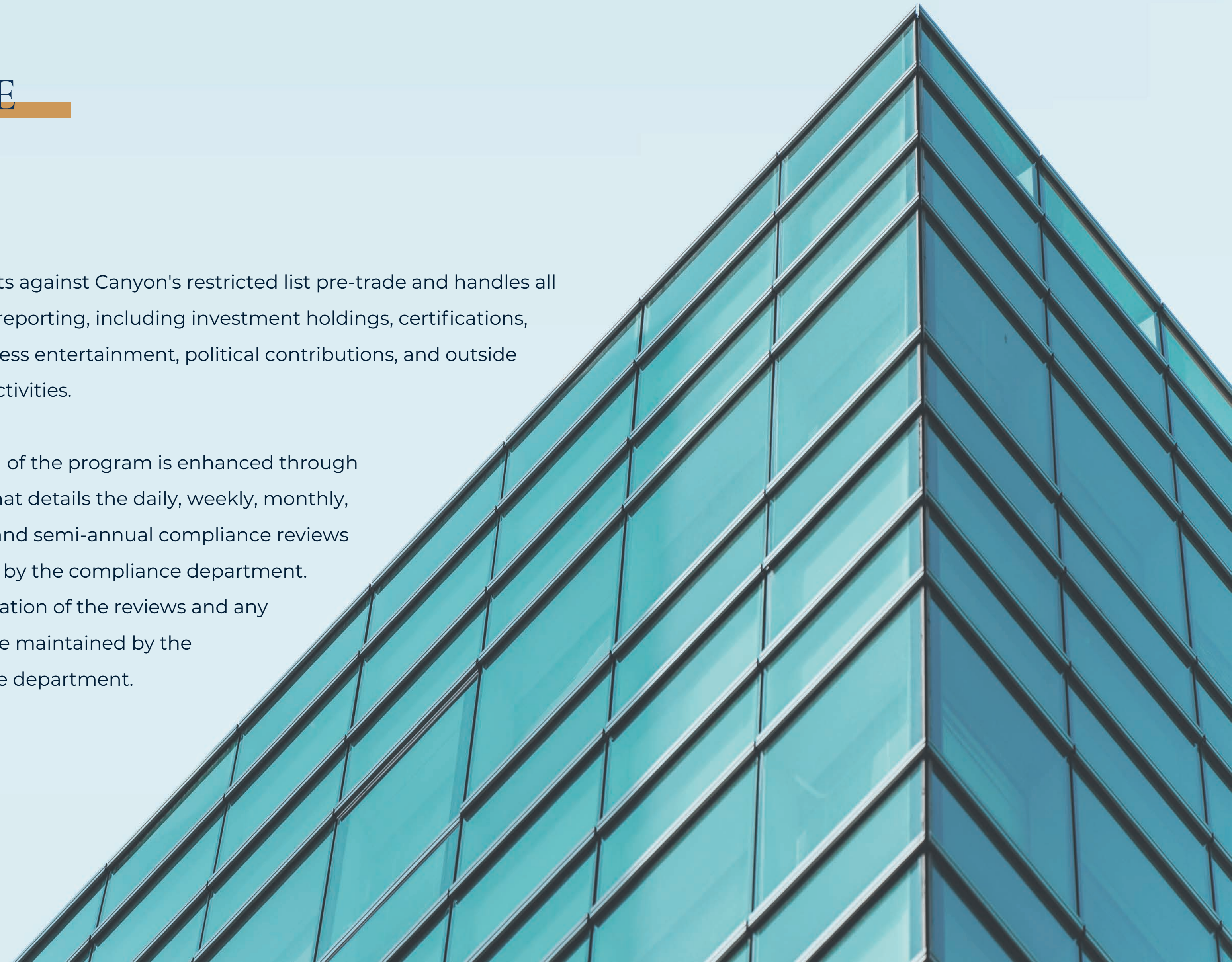
Canyon's comprehensive compliance program supports our commitment to the highest ethical standards. Our in-house compliance team, led by the chief compliance officer, regularly evaluates Canyon's operations, oversees adherence to Canyon's policies and procedures, and assesses their alignment with evolving legal, regulatory, and business landscapes. The team also provides a formal quarterly report on the above to senior management.

Each department at Canyon participates in an annual compliance training aligned to the business unit. In addition, all employees must certify compliance with our code of ethics on a quarterly basis. Employee trading—including pre-clearance, holding period requirements, and blackouts—is monitored through compliance software. This software cross-checks

investments against Canyon's restricted list pre-trade and handles all employee reporting, including investment holdings, certifications, gifts, business entertainment, political contributions, and outside business activities.

Monitoring of the program is enhanced through software that details the daily, weekly, monthly, quarterly, and semi-annual compliance reviews performed by the compliance department.

Documentation of the reviews and any findings are maintained by the compliance department.







FIRM ETHICS AND GOVERNANCE

GOVERNANCE

Canyon's operational oversight is entrusted to both an executive committee and a management committee.

The executive committee convenes monthly to review the firm's business performance, as well as the operations and planning for each business unit. Noteworthy issues identified during these meetings are brought to the management committee for further consideration. Executive committee members include the chief

compliance officer, chief financial officer, chief operating officer, chief information officer, head of client relations and business development, as well as other senior leadership from across the firm's business units including risk, legal, investor relations, real estate and human resources.

Major operational and strategic decisions for the firm are considered during the management committee

meetings, which take place with regular frequency. Members of the management committee include founding partners, chief investment officer, chief operating officer, chief strategy officer, and head of business development and client relations. The management committee is responsible for shaping the firm's direction, while the founding partners retain ultimate decision-making power in all matters brought before the committee.







FIRM ETHICS AND GOVERNANCE

CYBERSECURITY

Canyon prioritizes cybersecurity through a comprehensive program centered around the key components of confidentiality, integrity, and availability. We follow an IT security control framework based on guidance from the National Institute of Standards and Technology (NIST) Special Publication 800-53 Rev. 4 and the U.S. Securities and Exchange Commission’s (SEC) Division of Examinations risk alerts.<sup>1</sup> Our policies and procedures are based on this framework and are supported through annual cybersecurity awareness training and third-party monitoring.

Enhancing and maintaining employee awareness training, as led by industry experts, is a critical component of safeguarding information and preventing cyberattacks. Canyon combines proactive measures such as continuous

employee training, phishing campaigns, and internal and external security assessments to address the human factors in information security. Concurrently, we monitor vendor management and performance through external reviews of their security controls and conduct site visits when needed. Our internal risk-management reports document all these efforts, providing comprehensive oversight of our critical vendors.

Canyon’s cybersecurity committee convenes monthly to oversee our program, strategize on preventing cyberattacks, and then present the resulting insights and recommendations to the founding partners on an annual basis.

Canyon’s cybersecurity policies and procedures address but are not limited to:

- firewalls
- intrusion detection devices
- network segmentation
- network and role-based access controls
- administrative access restrictions
- password policies
- code review
- logging
- annual cybersecurity awareness training
- encryption
- anti-virus
- anti-malware
- monitoring by third-party security operation centers

<sup>1</sup> Our approach is aligned with the President's Executive Order for Protecting the Nation's Critical Infrastructures.





# 03

## OUR APPROACH TO CORPORATE CITIZENSHIP AND DEI

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08 Community, Engagement, and Philanthropy

10 Diversity, Equity, and Inclusion





# COMMUNITY, ENGAGEMENT, AND PHILANTHROPY

*Since our founding in 1990, Canyon has maintained a strong culture of volunteerism and charitable giving. The positive impact we seek to make is made possible by our employees’ deep commitment to contributing time and energy toward supporting critical causes and supporting partner organizations.*

*In 2020, Canyon formalized these efforts in a corporate social responsibility (CSR) program. The four strategic areas that define our community-centered approach to CSR include education and research; equity through access; underserved communities; and sustainability and the environment. These activities are rooted in the philanthropic and community-focused activities of our founders.*

## 2022 PARTNERSHIPS

We partner with organizations whose causes are aligned with our values as a firm and that we believe are the most effective at delivering sustained impact to underserved communities. In 2022, Canyon continued to support clean water access and sanitation through our partnerships with nonprofits. See *Accelerating a solution to Mexico’s water and sanitation crisis* for an example of the projects we fund.



Back to School event: In Los Angeles, Canyon’s team worked with the Partnership for Los Angeles Schools to outfit the incoming class of 2026 at Jordan High School in Watts with their teachers’ wish lists of items. Over 375 backpacks were distributed to students.

### Accelerating a solution to Mexico’s water and sanitation crisis

Two billion people around the world lack access to safe drinking water. In Tepoztlán, a rural town in the state of Morelos in central Mexico, the situation is particularly acute: only 59% of residents have piped water compared to 91% nationally.

Canyon provided a grant for a project by Water.org and a local NGO, SARAR, to support safe drinking water for people in Tepoztlán. Under this grant Water.org improved water access for 1,965 people through affordable loans for water purification products aimed at local households and local bottle water providers.

These loans were provided in partnership with education from SARAR on safe water practices, workshops providing local households with information on local water quality, and training on safe water management.





COMMUNITY, ENGAGEMENT, AND PHILANTHROPY

CANYON GIVES BACK

We established the Canyon Gives Back program in 2017 to encourage employee engagement with local communities through charitable contributions and volunteer work by providing:



Quarterly opportunities for team members to volunteer with local charities



Employee donation matching for various campaigns responding to natural disasters and crisis events



Two days of paid leave annually dedicated to volunteering

CANYON CSR IMPACT

525+

EMPLOYEE VOLUNTEER HOURS IN 2022

US\$300,000+

IN CHARITABLE GIVING IN 2022



Canyon Gives Back event: Canyon's Dallas team partnered with Homeless Veterans Services of Dallas to provide basic hygiene supplies to veterans in need. The team put together over 200 care packages.





# DIVERSITY, EQUITY, AND INCLUSION

*Canyon believes that diversity is an essential part of doing business in today’s highly competitive marketplace. We continued to implement this philosophy through recruitment efforts, mentorship programs, analyzing our benefits and compensation structures, and firm-wide workshops aimed at increasing inclusivity and diversity.*

## DEI GOVERNANCE

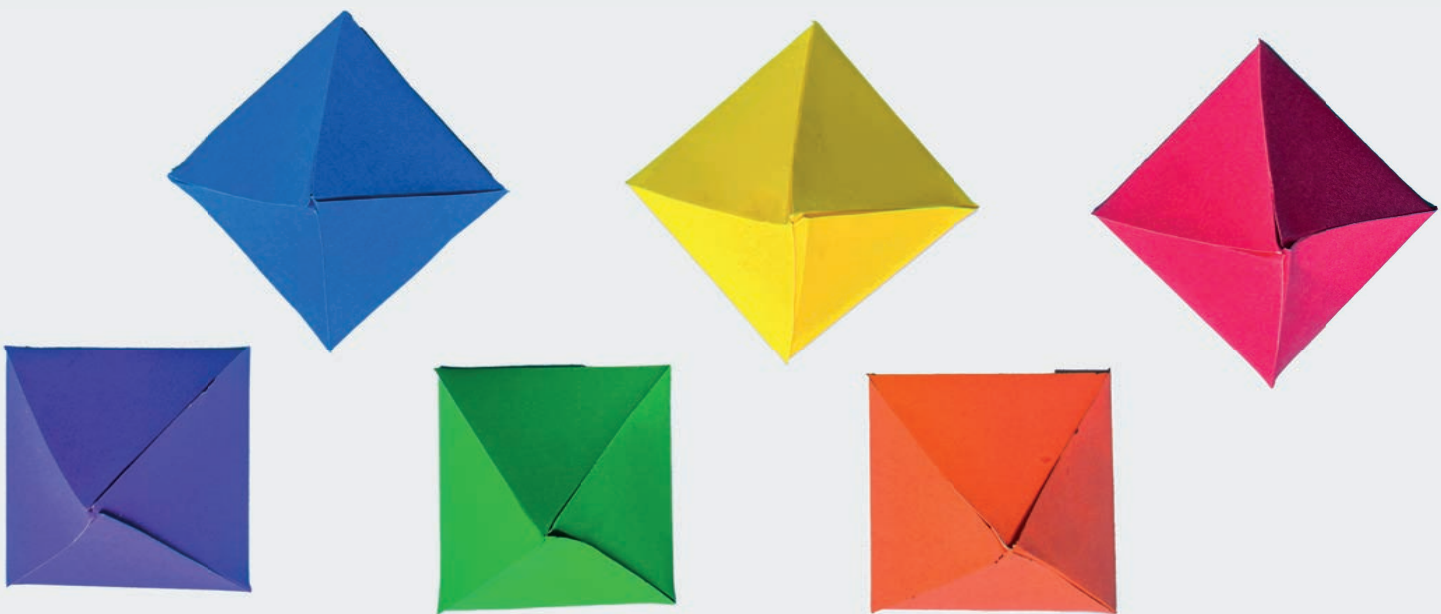
### DEI POLICY

Canyon Partners’ DEI policy outlines the firm’s vision for an inclusive company culture. The policy is guided by the firm’s principles of eliminating discrimination, promoting equality, and encouraging an inclusive, diverse, and supportive culture.

### DEI COMMITTEE AND OVERSIGHT

The DEI Committee, led by the director of DEI, sets the course for implementing and monitoring progress on the firm’s DEI efforts. 15 staff members from diverse roles, levels of seniority, and office locations across the company constitute the committee, serving two-year terms to ensure broad participation.

Canyon’s director of DEI works with senior leadership to develop and execute the company’s DEI strategy, policies, and initiatives, setting both short- and long-term goals.



## 2022 Partnerships: Increasing Access to Careers in Finance

### ROCK THE STREET, WALL STREET

*A financial and investment literacy program designed for high-school girls*

- Canyon team members mentor students at the Marvin E. Robinson School of Business and Management in Dallas

### ROBERT TOIGO FOUNDATION

*MBA fellowship program dedicated to increasing diversity in finance*

- Team members provide guidance and advice on careers in asset management

### POSSE FOUNDATION

*Dedicated to providing access to college education to high potential kids from underserved communities and increasing diversity on university campuses*

- Canyon provides support through funding and team member participation in selecting scholars

### SUTTON TRUST

*Supports social mobility in the UK through access to educational and professional opportunities*

- In 2022, as a Pathways to Banking and Finance participant, Canyon hosted a student for a week of immersive learning in finance





DIVERSITY, EQUITY, AND INCLUSION

INTERNAL AND EXTERNAL STAKEHOLDER ENGAGEMENT

EXTERNAL AFFILIATIONS AND PEER ENGAGEMENT

We continue to support our diversity efforts through participation in industry initiatives. In addition to being a signatory of the ILPA Diversity in Action Initiative since 2021, last year we became signatories to the CFA Institute DEI Code.

INTERNAL COMMUNICATION FOR OUR PROGRESS WITH DEI

Given the iterative nature of DEI programs, we share our progress internally through multiple channels, including a page dedicated to DEI and CSR efforts on our redesigned intranet. Employees also receive a monthly newsletter devoted to DEI. To reach external audiences we post updates on DEI and CSR efforts on our LinkedIn page.

MEASUREMENT AND REPORTING

QUANTITATIVE AND QUALITATIVE DATA

Canyon regularly collects and reviews quantitative data on the diversity of its workforce, sharing it with human resources and senior leaders to inform recruitment efforts and other policies. The firm also includes questions on DEI efforts in annual performance self-evaluations and in 90-day reviews of new hires.







DIVERSITY, EQUITY, AND INCLUSION

BENEFITS AND COMPENSATION

SUPPORT WORKING PARENTS

CANYON’S PARENTAL LEAVE AND FAMILY PLANNING BENEFITS



PAID PARENTAL LEAVE

- Pregnancy and childbirth paid leave: 12-14 weeks at 100% salary
- Paternity/baby-bonding paid leave: 6 weeks of leave at 100% salary



WORK-LIFE BENEFITS AND SUPPORTING NEW PARENTS

- Phase back (from leave) program provides up to three months of remote work in order to transition back from leave
- Travel support for new and nursing mothers, including infant and caregiver travel expenses
- Breast milk storage and shipping during any business travel



ADOPTION AND FERTILITY SUPPORT

- US \$10,000 lifetime benefit, which can be used toward reproductive and/or adoption assistance

CONFIRMING PAY EQUITY

Canyon plans to conduct pay equity analysis on a routine basis, and to regularly report the results on our annual ESG report.

Our last assessment in 2021 found no disparities in pay equity. This evaluation was conducted by external consultants on compensation for US employees (excluding partners and front office personnel). The analysis accounted for tenure, employee performance, and performance of the firm.

REMOTE WORK POLICY

Since the pandemic, Canyon has maintained a formal hybrid work policy to provide flexibility for team members. All team members work from their respective offices on the same three days each week, so they can continue to reap the benefits of face-to-face engagement and collaboration. Canyon has also implemented a “work from anywhere” program, which allows team members to work remotely for up to four weeks.





## DIVERSITY, EQUITY, AND INCLUSION

**CREATING INTERNAL AND EXTERNAL DIVERSE PIPELINES**

*A proactive approach to diversity in recruiting calls for developing diverse talent pipelines.*

**RECRUITING EFFORTS: BUILDING A DIVERSE SLATE OF CANDIDATES**

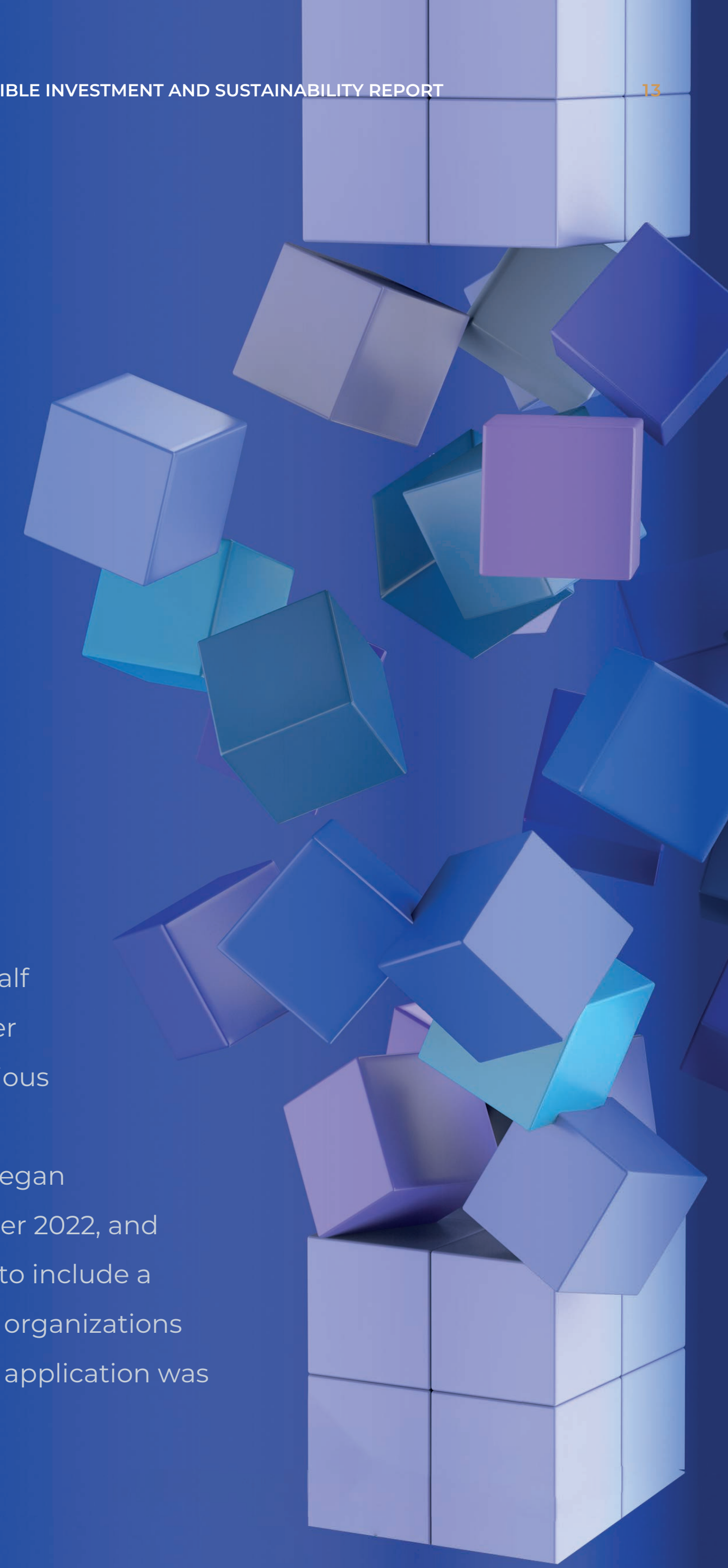
Canyon takes steps to ensure that a diverse slate of candidates is given due consideration before hiring decisions are made. For every job search, Canyon requires recruiters to present a slate of candidates that reflects the full range of available talent. Canyon then works with these recruiters and the hiring managers to ensure a consistent evaluation of all candidates.

As part of our efforts to create diverse talent pipelines, in 2022 Canyon also:

- Leveraged relationships with nonprofit organizations in search of underrepresented candidates
- Partnered with nonprofit organizations dedicated to increasing financial literacy and education in historically marginalized groups, such as the Robert Toigo Foundation, STREAM (Strengthening Racial Equity in Asset Management) Foundation, Sutton Trust (UK), and the Posse Foundation
- Shared job postings with the Robert Toigo Foundation, Access Distributed, and Women in Institutional Investor Networks, among others
- Addressed systemic deterrents, ensuring that the language in job descriptions does not create barriers to entry for underrepresented candidates

**SUMMER INTERNSHIP**

Nearly half of our 2022 interns were women, and over half came from ethnically diverse backgrounds. Our summer internship consists of a rotational program through various departments, to maximize the interns' exposure to the investment and operational functions of our firm. We began recruitment for the summer 2023 class in late September 2022, and expanded the program length from six to eight weeks, to include a rotation in real estate investing. We engaged nonprofit organizations such as AltFinance and STREAM in Dallas to ensure our application was accessible to underrepresented groups.







## DIVERSITY, EQUITY, AND INCLUSION

## WOMEN'S MENTORSHIP AND AFFINITY GROUPS

Increasing gender equity and supporting women in senior leadership roles is a core goal of our DEI initiative. In 2022, Canyon continued its women's mentorship program in partnership with Beyond Barriers. All applicants were given the opportunity to participate in the program, which resulted in two cohorts of 18 women in total, 11 of whom were from diverse backgrounds.

In 2022, we formally launched the Canyon women's group CREW (connect, respect, empower women). The mission of this affinity group is to create community, mentorship, and a safe space for the women of the firm to raise awareness and engage on different topics of interest. The group is led by a steering committee composed of female volunteers and members of the DEI Committee. We held one social event for International Women's Day and two educational interactive workshops in the summer and fall of 2022.

“

Cultivating a collaborative work environment where everyone is set up to succeed and is valued for their unique contributions increases engagement and ultimately drives performance.

—

**HANAN DAKHIL**

SENIOR VICE PRESIDENT AND  
DIRECTOR, DIVERSITY, EQUITY,  
AND INCLUSION





# 04

## RESPONSIBLE INVESTMENT AND STEWARDSHIP

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TIMELINE: PROGRESSION OF RESPONSIBLE INVESTING AT CANYON







## HOLISTIC APPROACH TO MATERIALITY

Responsible investing practices enhance our investment process by providing a broader perspective on potential risks and returns. At Canyon, we tailor our ESG integration approach based on asset class, sector, and industry to further value creation and risk mitigation. For instance, in private markets where ESG data and disclosure may be limited, we actively engage with companies, sponsors, and bankers to better understand all material issues at hand, including ESG, and to better inform our comprehensive assessments.

A distinctive set of advantages and hurdles face value-oriented investment strategies in this space. The existing body of research from various financial institutions underscores the heightened importance of mitigating ESG risks, especially for high-yield issuers who are inherently exposed to greater risks compared to their investment-grade counterparts. However, addressing and improving ESG and sustainability-oriented issues not only mitigates these risks but also holds the potential to substantially enhance business performance, creating a unique investment landscape with both challenges and opportunities for value-oriented strategies.







HOLISTIC APPROACH TO MATERIALITY

RESPONSIBLE INVESTMENT METHODS AND TOOLS USED ACROSS THE INVESTMENT LIFECYCLE







## RESPONSIBLE INVESTMENT GOVERNANCE AND OVERSIGHT

*Last year, Canyon enhanced the oversight of our responsible investing practices. We have established an internal review subcommittee to ensure our internal ESG analysis meets the objectives laid out in our ESG policy.*

### ESG POLICY

Canyon's Environmental, Social, and Governance Policy guides our responsible investing practices, from pre-investment assessments to the training and educational initiatives provided to our research analysts. The policy is intentionally designed to be amended and improved as we seek new paths to integrate ESG analyses in our investment and due diligence process. Our ESG policy is made available to all clients.

### RESPONSIBLE INVESTING TRAINING

We believe that ongoing education and training of the investment team is critical to successfully integrating an ESG framework into our investment practices. In 2022, all investment professionals at Canyon participated in an ESG continuing education session led by an external compliance firm. The session focused on regulatory oversight, delving into topics such as the regulatory approach to reporting on ESG integration. Another goal of the training was to prepare staff for our firm-level commitment to PRI reporting and membership.

## Industry Memberships

Through active participation in ESG-focused initiatives, Canyon can exchange best practices with peers, anticipate industry trends, and strengthen our commitment to transparency.

Signatory of:



In 2021, Canyon became a signatory to the Principles for Responsible Investment (PRI). The PRI, a global initiative, provides a framework for responsible investment through six principles that investors can voluntarily adopt to demonstrate their commitment.



Canyon joined the Institutional Limited Partners Association's (ILPA) Diversity in Action initiative as a signatory in 2021. The initiative convenes limited partners and general partners committed to advancing DEI.

## PROGRESS IN 2022



Joined the Standards Board for Alternative Investments (SBai) Responsible Investment Working Group, which produces practical guidance on implementing and managing responsible investment processes.



Became a signatory to the Chartered Financial Analyst (CFA) Institute Diversity, Equity, and Inclusion Code. The DEI Code provides the investment industry with a framework to drive measurable change in diversity, equity, and inclusion within organizations.





HOLISTIC APPROACH TO MATERIALITY

ESG COMMITTEE

Last year, the ESG Committee established an accountability mechanism through the formation of an investment review subcommittee responsible for reviewing new internal ESG ratings attributed by analysts to corporate investments. The results of this update include ensuring in-depth discussions of ESG materiality for each investment and peer-to-peer learning on ESG materiality among investment partners.

On an as-needed basis, the subcommittee invites analysts to present specific investments under review. Following the subcommittee's review, the findings are presented to the ESG Committee for approval.

ESG ASSESSMENT APPROVAL PROCESS



Our ESG Committee, formed in 2020, oversees the implementation of the ESG policy within Canyon. Comprised of senior leaders representing various business units such as investment research, real estate, operations, legal, compliance, and business development, the committee collaboratively steers the firms' ESG initiatives. Canyon's head of ESG serves on the committee and works closely with senior management to set the ESG investing agenda and establish priorities to ensure a cohesive approach across the firm.

ESG Committee structure

ESG Committee:

Responsible for overseeing the implementation of ESG integration at Canyon. The committee includes representation by senior leadership from across the firm's business units:

- Managing Director and Head of ESG
- Partner and Chief Investment Officer
- Partner and Chief Investment Officer of Canyon Partners Real Estate
- Partner and Head of Client Relations and Business Development
- Partner and Chief Strategy Officer
- Partner and Chief Operating Officer
- Partner and Chief Compliance Officer
- 3 Investment Partners
- Director, Canyon Partners Real Estate
- Senior Compliance Associate



MEETING FREQUENCY  
QUARTERLY

Investment Review Subcommittee:

Composed of ESG Committee members. Formed in 2022 to review internal ESG ratings determined for corporate investments.

- Managing Director and Head of ESG
- 3 Investment Partners
- Partner and Chief Compliance Officer
- General Counsel




MEETING FREQUENCY  
BIMONTHLY





# CANYON CAPITAL ADVISORS: RESPONSIBLE INVESTMENT PRACTICES IN OUR CREDIT AND HEDGE FUND STRATEGIES



*In a value-oriented investment universe that is potentially more exposed to ESG-related risks compared to other investment strategies, realizing the potential upside from improved ESG management and performance hinges on resolving the limited coverage of robust ESG research.*

“

Responsible investing can mean many things. For us, it is applying additional resources to catalog and understand material risks and opportunities that underpin a business model, and may sit outside the scope of traditional financial analysis.”

—  
**RANDY KO**  
HEAD OF ESG





CANYON CAPITAL ADVISORS:  
RESPONSIBLE INVESTMENT PRACTICES IN  
OUR CREDIT AND HEDGE FUND STRATEGIES

PRE-INVESTMENT ESG ANALYSIS

To address the challenge of limited ESG coverage for high-yield corporate bonds, leveraged loans, and private credit,<sup>1</sup> Canyon leverages available information on comparable firms. Using Canyon’s proprietary ESG analysis software system, the firm applies peer-group ESG data to identify and define the universe of potentially material ESG factors for each investment.

Once the universe of ESG issues is established, Canyon evaluates potential material risks and opportunities for the investment. As part of this process, staff reviews MSCI ESG research, ESG survey responses and, when needed, reaches out to management teams, private equity sponsors, and bankers for supplemental information. For example, to improve access to ESG data, Canyon requests information from the corporate recipients of the loans underlying CLOs using the Loan Syndications and Trading Association's ESG questionnaire. A significant upsurge in the number of companies responding to this

questionnaire in recent years has further enriched our ESG dataset.

Canyon’s investment team collaborates closely with the designated head of ESG to identify sustainability risks, sensitivities, and areas for improvement. The resulting synopsis captures drivers of ESG-related financial risks and opportunities, peer-group benchmarking, and supporting data where available. These insights are integrated into an internal ESG rating that contributes to the overall analysis of a potential investment.



<sup>1</sup> Currently, less than 25% of issuers in Canyon’s hedge fund strategy are covered by MSCI’s ESG ratings.

Market Approach to ESG Risk Identification

- 1
- MARKET APPROACH TO ESG RISK IDENTIFICATION
- Using Canyon's proprietary ESG analysis software system, the firm applies peer-group ESG data to identity and define the universe of potentially material ESG factors for each investment
- 2
- ESG ASSESSMENT
- This assessment incorporates a review of company disclosures, analysis of past and anticipated events, direct communication with issuer management and sponsors, and insights from reputable third-party sources
- 3
- ESG RATING
- Insights from the ESG assessment are integrated into an internal ESG rating that contributes to the overall analysis of a potential investment
- 4
- ESG REPORT
- Analysis and findings are documented and updated as new information comes to light
- 5
- CENTRALIZED KNOWLEDGE
- Reports are housed in our internal ESG dashboard accessible to all analysts
- 6
- STAYING ACTIVE
- Analysts populate the database with relevant insights and documents gleaned from research and from conversations with the issuer



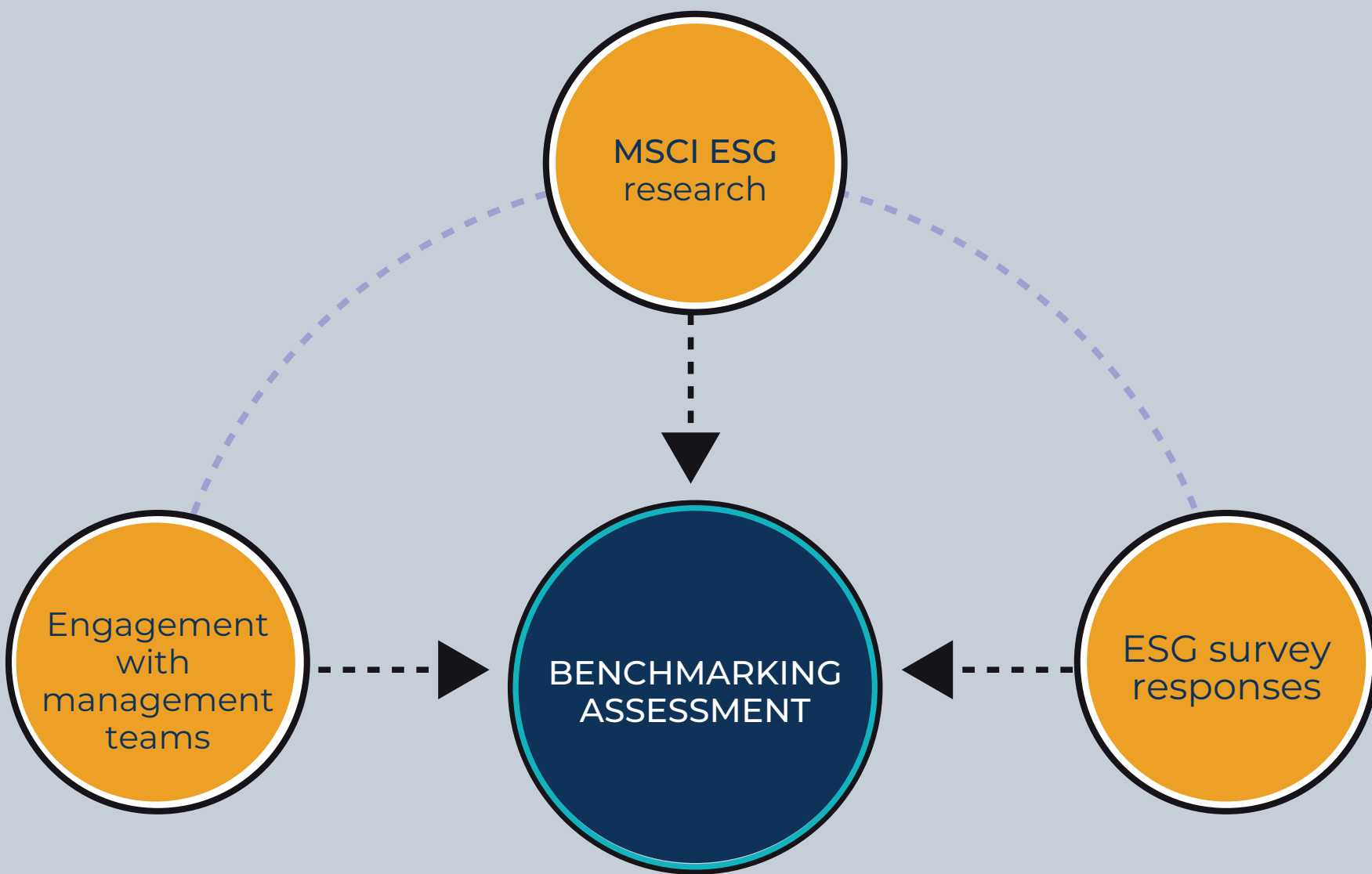


CANYON CAPITAL ADVISORS:  
RESPONSIBLE INVESTMENT PRACTICES IN  
OUR CREDIT AND HEDGE FUND STRATEGIES

## MONITORING AND TRACKING ESG PERFORMANCE

We will update an investment’s ESG analysis as new information and insights emerge. Our internal cloud-based ESG dashboard houses these findings and provides a centralized repository of knowledge.

### ASSESSING CORPORATE ESG PERFORMANCE



## ESG DASHBOARD

Canyon designed an internal ESG data and analysis platform to serve as a central repository for ESG analysis, ratings, engagements, and research related to each potential and current corporate investment. The credit analysis workflow calls for using the ESG dashboard, housed on the platform, ensuring that analysts actively engage in ESG research and collaborate with the head of ESG early in the underwriting process. The platform is populated with the fundamental analysts’ findings and with company-relevant insights from the ESG team, in addition to carbon emissions data from MSCI. With this information, analysts identify the key drivers used to form Canyon’s internal ESG rating for individual investments.

### 2022 PROGRESS: ENHANCED INTERNAL USE OF THE ESG DASHBOARD BY THE INVESTMENT TEAM

In 2022, we expanded our database’s coverage of ESG analysis for investments in high-yield corporate bonds, leveraged loans, and private credit investment strategies.<sup>1</sup> The database now includes detailed internal analysis and ESG commentary for 100% of the Canyon ESG Fund and increased coverage from 20% to 70% for non-ESG funds. Version 13 of our proprietary ESG dashboard was released, introducing new features like data tagging and thematic alignment (e.g., the Sustainable Development Goals (SDGs)).

<sup>1</sup> Does not include CLO assets.

**2022 PROGRESS:**  
*Expanded ESG analysis for high-yield corporate bonds, leveraged loans, and private credit strategies*







CANYON CAPITAL ADVISORS:  
RESPONSIBLE INVESTMENT PRACTICES IN  
OUR CREDIT AND HEDGE FUND STRATEGIES

## CANYON SUSTAINABLE INVESTMENT HEDGE FUND: INVESTMENT SELECTION

When assessing potential investments for the sustainability-oriented fund, we identify whether Canyon's participation could cause, compound, or be directly linked to negative or potentially material sustainability outcomes. The factors we assess span environmental, social, and governance issues, including but not limited to climate change, waste management, labor management and standards, product safety, privacy and data security, controversial supply chain and sourcing, business ethics, and corporate behavior.

Sector and product/business based exclusions include companies with operations in:

- Cluster munitions or antipersonnel mines<sup>1</sup> production
- Tobacco
- Gaming
- Pure-play fossil fuel

## CANYON SUSTAINABLE INVESTMENT HEDGE FUND: FORWARD-LOOKING MONITORING TO UNDERSTAND ESG MOMENTUM

In the sustainability-oriented fund we monitor ESG momentum to identify potential inflection points in an issuer's ESG performance. Canyon then categorizes the ESG trajectory of the investment as trending positive, negative, or neutral within the context of the investment's peer group. Through corporate disclosures, we also track individual company key performance indicators (KPIs) including GHG emissions and board diversity. However, data coverage for our investment universe is currently sparse. In preparation for increased data availability, we have built the infrastructure to report these KPIs on an aggregate basis (e.g., the portfolio's carbon footprint).

## SUSTAINABILITY-ORIENTED FUND 2022 UPDATE

*To capture the momentum of energy transition, Canyon's sustainability-oriented fund created a forward-looking investment framework that allows for transition-oriented investments, moving away from hard exclusions.*

We updated the requirements for fund inclusion to allow for investments in companies publicly committed to transitioning from fossil fuels to clean energy. Opportunities arising from the energy and power sectors' shift to renewable energy as part of the low-carbon economy transition cycle, align with the fund's strategy to capitalize on investments that propel an issuer's decarbonization goals.

<sup>1</sup> Issuers that derive more than 10% of gross revenues from the production of cluster munitions or antipersonnel mines will not be acquired by the Fund.





## INVESTING IN THE RENEWABLES SECTOR

*A conviction in the value investing potential of renewables, particularly those with contracted cash flows, underscores Canyon's renewable investment strategy.*

Canyon's current strategy for renewable investments concentrates on debt and equity financing to companies active in the residential solar market. We target installed capacity with contracted cash flows and invest through junior debt or equity tranches. Given the interest in rooftop and community solar for long-term energy cost reduction, Canyon believes the market—deterred by the capital-intensive nature of the industry—underestimates the value of residential solar for homeowners and the grid.

Market volatility can create investment opportunities in solar securities that align with Canyon's expertise in capital solutions and value investing. Last year, amid the credit crunch caused by the Federal rate hikes, Canyon

identified financially attractive opportunities that improved solar companies' capital structures in addition to expanding their reach in the market.

Canyon's investments can provide a platform for growth, by allowing solar manufacturers and lenders access to secure additional funding while mitigating the need to retain capital-intensive investments on their balance sheets. By providing junior debt and equity tranche funding for solar loan securitizations, Canyon can increase the originator's overall access to capital by reducing their risk and potentially attracting a larger pool of investors. Supporting

these securitizations contributes to the increasing adoption of renewable energy by homeowners—a critical component of the transition to a low-carbon economy.<sup>1</sup> Canyon's funding also allows solar companies to convert illiquid assets into immediate capital that can increase operations, maintain financial health, and enable management to focus on core operations.

<sup>1</sup> "Approximately 100 Million Households Rely on Rooftop Solar PV by 2030," IEA Technology Report, September 2022, <https://www.iea.org/reports/approximately-100-million-households-rely-on-rooftop-solar-pv-by-2030>







CANYON CAPITAL ADVISORS:  
RESPONSIBLE INVESTMENT PRACTICES IN  
OUR CREDIT AND HEDGE FUND STRATEGIES

A PHILOSOPHY OF PARTNERSHIP AS THE FOUNDATION FOR INVESTMENT STEWARDSHIP

Canyon will engage with issuers across our debt and equity investments to seek demonstrable improvements in risk management. At times, Canyon will proactively reach out to an issuer to recommend improvements in ESG practices. In the case of distressed assets, these engagements may occur within both restructuring and non-restructuring contexts. Active engagement while resolving an issuer’s capital needs can provide an opportunity to address ESG risks and promote

sustainability. Moreover, restructuring presents an opportunity to improve material ESG factors that could fuel long-term value creation for a post-bankruptcy company.

This report includes three examples of Canyon’s approach to stewardship through engagement. See case studies: *Aston Martin* (page 32), *Eco Material Technologies* (page 34), and *FlixBus* (page 36).



The goal with assessing ESG factors is to create a portfolio that understands as many material risks as possible, and is also trying to do something about them, all while still focused on the priority of investment returns.”



JONATHAN BARZIDEH  
INVESTMENT PARTNER

2022 ESG DIALOGUES

Engagements in 2022 included:

- **Dialogue with private equity sponsor:** Discussed their ESG investment approach and opportunities for portfolio companies to enhance ESG performance
- **Engagement with telecommunications company:** Pressed the company to enhance disclosures and strengthen data integrity and privacy policies — especially regarding internal data security audits
- **Engagement with oil and gas company:** Encouraged strengthening ESG efforts and progression towards an industry leading sustainability model



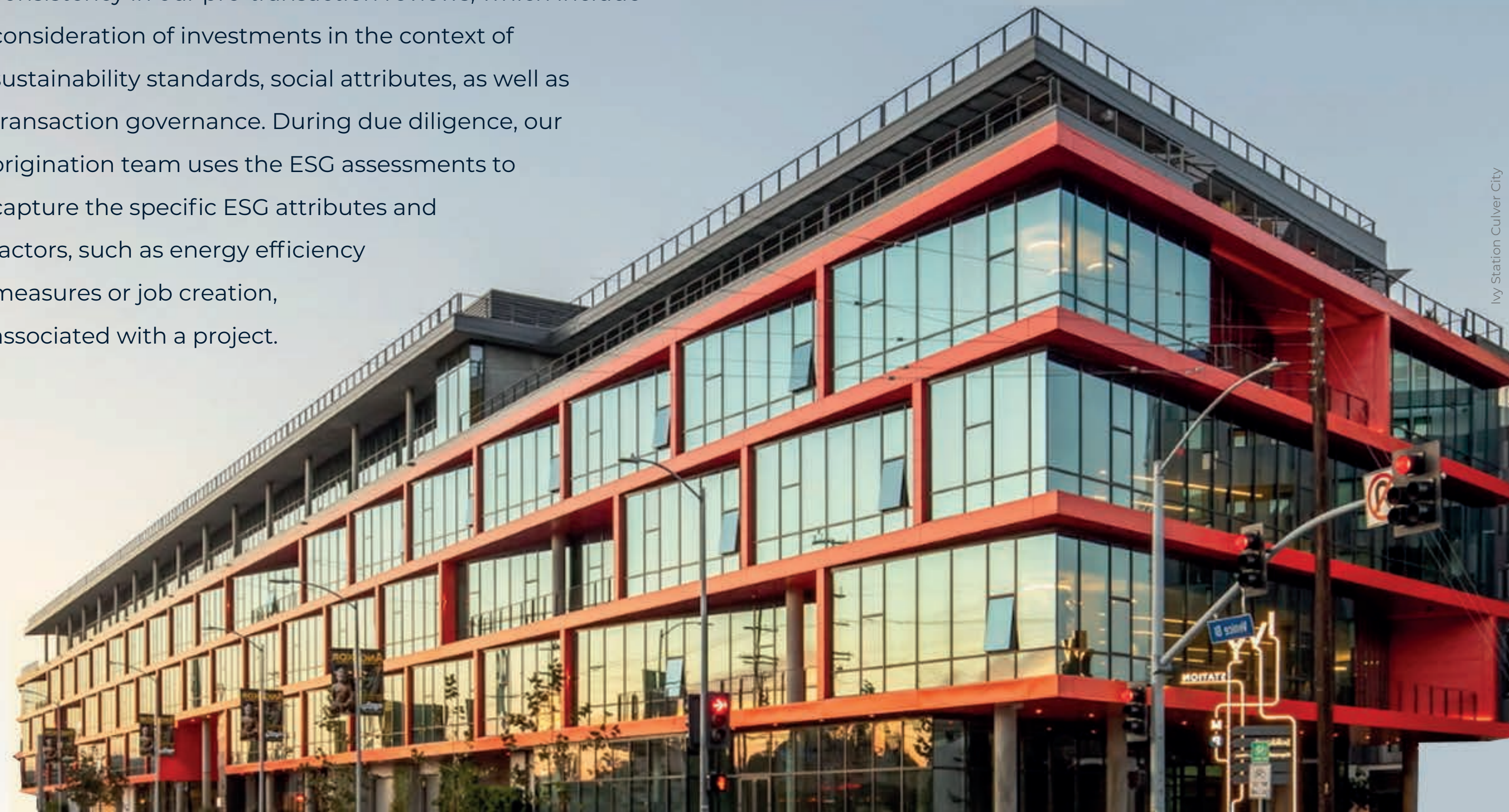


# CANYON PARTNERS REAL ESTATE: UNDERSTANDING BOTTOM-LINE IMPACTS

*Canyon Real Estate ESG practices<sup>1</sup> build upon 30 years of in-depth diligence across a wide variety of environmental, social, and governance factors that are pivotal in driving value and mitigating risks within the commercial real estate space.*

Canyon actively incorporates ESG analyses into key decision points throughout the assessment and ownership processes for equity real estate investments governed by our robust ESG policy. The results of our ESG due diligence assessment are documented in the Investment Committee memoranda. These findings undergo review and approval by the committee to ensure comprehensive consideration of ESG factors. Canyon will evaluate any concerns or deficiencies found during due diligence to understand the potential for risk management and remediation before proceeding with any investment opportunity.

Canyon real estate applies an ESG due diligence assessment tailored to specific types of investments, to ensure comparability and consistency in our pre-transaction reviews, which include consideration of investments in the context of sustainability standards, social attributes, as well as transaction governance. During due diligence, our origination team uses the ESG assessments to capture the specific ESG attributes and factors, such as energy efficiency measures or job creation, associated with a project.



Ivy Station Culver City

<sup>1</sup> Certain real estate platforms are excluded from the ESG policy, including separately managed accounts or affiliate advisors, such as AECOM-Canyon Partners.





## CANYON PARTNERS REAL ESTATE: UNDERSTANDING BOTTOM LINE IMPACTS

### PROGRESS IN 2022: ENABLING DATA-DRIVEN EFFICIENCIES AT CANYON'S REAL ESTATE ASSETS

Through informed decision-making, in 2022, Canyon enhanced internal capabilities for improved efficiency at the asset level. Energy and waste management utility data across our equity portfolio is now accessible for internal analysis with the completion of onboarding operational equity assets onto Measurabl, an ESG data-management platform.

Comprehensive energy data provides an understanding of each asset's energy consumption and efficiency, facilitating targeted energy efficiency recommendations from our ESG team to the asset management team. Furthermore, this data-driven approach allows for the monitoring and evaluation of energy efficiency initiatives' performance, ensuring a measurable and accountable approach in our equity portfolio. Access to real data, as opposed to relying on assumptions, significantly improves the quality of these recommendations.

Outcomes from enhanced data collection will contribute to improve reporting and disclosure to stakeholders. By capturing and analyzing utility usage data, Canyon Real Estate can provide transparent and reliable reporting to investors who are interested in



understanding the sustainability and environmental impact of their investments. Looking forward, Canyon Real Estate aspires to broaden the scope of data collection efforts to cover all funds, ultimately achieving a comprehensive understanding of energy efficiency across our entire portfolio.

Now that the onboarding process is complete, we have initiated the quarterly updating of our ESG assessments. Starting in 2023, the asset management team will be responsible for updating the assessment on a quarterly basis, in addition to the assessment being completed at the closing stage by the origination team.

In 2022, Canyon Real Estate rolled out internal education on the ESG assessment and submission process for the asset management team. This included a template with clear definitions to guide the team in their reporting, alongside an introductory kick-off session to familiarize the team with the process and ensure they have the necessary support to meet the deadlines. The completed ESG assessments will be submitted to our central database system for record-keeping and analysis.





## CANYON PARTNERS REAL ESTATE: UNDERSTANDING BOTTOM LINE IMPACTS

### MITIGATING ENVIRONMENTAL IMPACTS

To effectively mitigate environmental risks, Canyon includes key findings in the Investment Committee memoranda, summarizing environmental assessments, and identifying potential energy efficiency measures and environmental actions. After closing on an investment, Canyon tracks relevant environmental metrics identified during due diligence and monitors the implementation of business plan initiatives related to environmental impacts. For example, if a construction project is planning to apply to become LEED®-certified upon completion, Canyon tracks whether or not that was achieved.

We identify efficiency opportunities for our equity investments through the utility data captured for operating real estate assets on Measurabl.

Past energy efficiency measures implemented at Canyon's managed assets include low-flow showers and toilets, and cool roofs, among others. From 2021 to 2022, to better identify efficiency opportunities, we began capturing energy usage through utility data for our equity investments by onboarding open and operating projects onto Measurabl. For more information, see *Progress in 2022* (page 27).







CANYON PARTNERS REAL ESTATE:  
UNDERSTANDING BOTTOM LINE IMPACTS

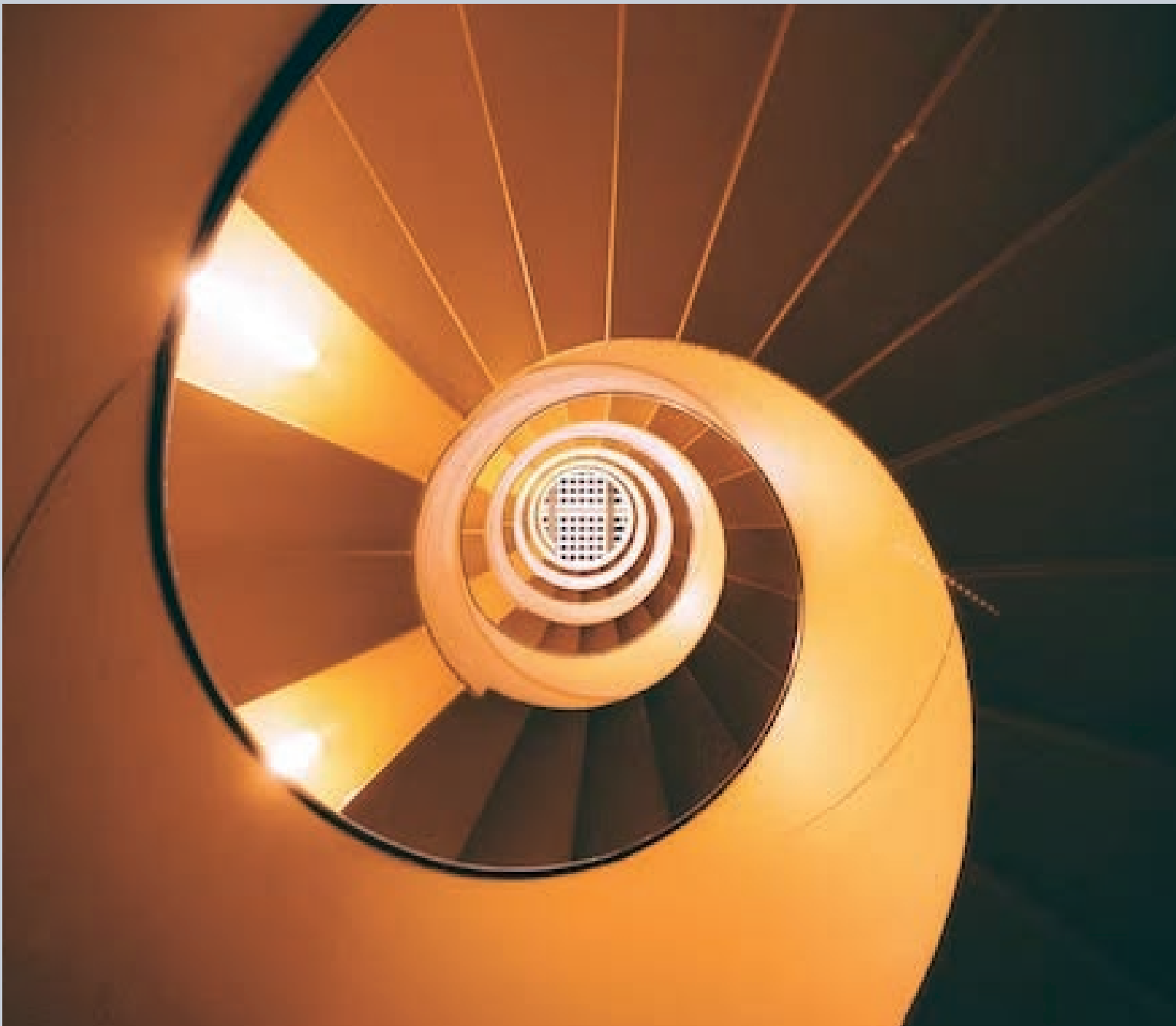
CULTIVATING EMERGING MANAGERS

The investment management industry has faced persistent challenges when it comes to accessibility for smaller firms and the lack of representation of women and minorities in senior leadership positions. Emerging manager platforms have emerged to create a more equitable playing field for underrepresented groups. Canyon's real estate team recognizes the significance of these dynamics and acknowledges the importance of diverse perspectives in both the industry and the investment process.

Canyon has developed a comprehensive platform designed to identify, select, and invest alongside highly successful emerging real estate managers. This platform aims to nurture the development of

the next generation of institutional real estate talent. In its capacity as investment manager, Canyon takes charge of sourcing and overseeing talent as well as providing oversight of all investments made through the platform.

Canyon's primary objective is to identify promising emerging managers who possess specialized expertise in multi-product asset classes, a proven track record of success, and access to distinctive investment opportunities. By fostering programmatic joint ventures and offering mentorship, Canyon offers valuable guidance and support to each manager.



CANYON CATALYST FUNDS

The Canyon Catalyst Funds (CCF), overseen by CPRE on behalf of the California Public Employees' Retirement System (CalPERS), invests in value-add equity opportunities within the western region of the United States. Through programmatic joint venture partnerships with emerging managers, CCF actively seeks out investment prospects. Canyon plays a pivotal

role in identifying early-stage real estate operators with exceptional performance, niche strategies, a proven track record, and the ability to generate unique investment opportunities that are typically challenging for traditional investment managers to access.

It is noteworthy that, as of December 2022, 4 out of the 5 emerging managers within the CCF platform were owned by diverse individuals. These managers also strive to promote diversity in the workplace.





INDUSTRY

PLASTIC PACKAGING  
MANUFACTURER

LOCATION

INDIANA,  
USA

## VALUE CREATION DRIVEN BY IMPROVED SUSTAINABILITY PERFORMANCE AND DISCLOSURE

*Berry Global, a Fortune 500 company with a US\$7 billion market capitalization<sup>1</sup>, provides value-added plastic consumer packaging and engineered materials for food and beverage, healthcare, and personal products. The company employs over 47,000 people in more than 300 locations.*

*Canyon has invested with Berry Global across the capital structure since 2008, and over the years, has worked closely with management to address sustainability concerns and improve related stakeholder communications.*

### CONTEXT AND GOALS

In 2020, Canyon began a dialogue with Berry Global to explore additional areas of value creation related to ESG and to improve disclosure of the company's existing sustainability programs. Despite the company's position as the global low-cost leader in packaging and protective solutions, Canyon believed that Berry Global's historically low equity valuation resulted from certain rectifiable factors including poor external communication regarding initiatives to 1) reduce the environmental impact of its products (e.g., closed-loop recycling) and 2) develop sustainable products (e.g., bioplastics). Canyon identified areas of ESG risks and opportunities including carbon emissions, chemical safety, materials and waste management, and corporate governance.

### COLLABORATIVE ENGAGEMENT

Canyon has worked closely with Berry Global over the past several years on these concerns. Through ongoing conversations with management, Canyon has provided our perspective on methods to improve the company's performance across key metrics. Subsequent actions by Berry led to the following results:

- **Lower carbon emissions:** Having surpassed their initial scope 3 GHG emissions reduction target four years ahead of schedule, in 2022, the company recommitted to further curtailing scope 3 emissions 25% by 2025, tripling the rate of reduction set in the original target.

<sup>1</sup> At year end 2022, Berry's market capitalization was \$7 billion.





INDUSTRY  
PLASTIC PACKAGING  
MANUFACTURER

LOCATION  
INDIANA,  
USA

- **Greater emphasis on reuse, recycle, innovate:** Berry is committed to increasing their use of circular plastics 30% by 2030 and increasing their use of recycled resin and packaging 10% by 2025. The company is also developing research into biopolymer solutions for use in their products.
- **Industry initiatives:** Berry is a founding member of the Alliance to End Plastic Waste and has been recently recognized by a number of ESG and industry groups for their commitment to ESG and sustainability.

### ESG INVESTOR OVERSIGHT

Chaney Sheffield, investment partner at Canyon, assumed a position on the board of Berry Global in late 2022, reinforcing the success of our mutual ESG partnership. Sheffield hopes to contribute insights and strategic guidance, further strengthening the alignment of Canyon and Berry Global's pursuit of sustainable business practices.

### Targets

25%  
by 2025

- **REDUCTION IN SCOPE 3  
GHG EMISSIONS**

30%  
by 2030

- **INCREASE IN USE  
OF CIRCULAR  
PLASTICS**

10%  
by 2025

- **INCREASE IN USE OF  
RECYCLED RESIN AND  
PACKAGING**





INDUSTRY  
ULTRA-LUXURY  
CARS

LOCATION  
ENGLAND AND  
WALES

## ASTON MARTIN'S TRANSITION TO A LOW-CARBON ECONOMY

*In 2022, Canyon engaged with Aston Martin to facilitate the transition and adaptation of their manufacturing operations and product pipeline to a low-carbon economy. Recognizing the potential benefits to Aston Martin's bottom line, Canyon proposed this strategic shift to align with changing customer demands and evolving regulatory environments. Building on an established relationship with Aston Martin, Canyon effectively encouraged and guided the company toward transitioning away from combustion-only engines. By leveraging internal expertise and industry knowledge, Canyon helped Aston Martin recognize opportunities where increased sustainability can benefit its bottom line.*

### CONTEXT AND GOALS

The automotive industry faces increasing pressure from customers, stakeholders, and policymakers to tackle climate change. To limit the rise in global temperature to 1.5°C by 2100, governments worldwide are introducing legislation to address emissions from transportation, including the phasing out of internal combustion engine (ICEs) vehicles in the coming years.

Recognizing that reducing its carbon footprint also strengthens its resilience against potential regulatory measures and future energy price fluctuations, Aston Martin has implemented several initiatives to reduce CO<sub>2</sub> emissions across its manufacturing facilities and supply chain. The company is also targeting an all-electric vehicle portfolio by 2030 to meet demand in the luxury car market.

### PRODUCT TRANSFORMATION

Aston Martin's vehicle pipeline is a key driver of their transition to a low carbon economy. By 2030, Aston Martin aims to have a fully electrified sports car and SUV portfolio. The company plans to introduce a new generation of electrified vehicles to meet this target, starting with the launch of its first plug-in hybrid electric vehicle (PHEV) in 2024, followed by the launch of its first battery electric vehicle (BEV) in 2025.

The company has established an EV Transformation Programme which involves training employees and establishing an EV Champion network to support the transition to EV production. This program includes the development of an Electrification Centre of Excellence, a dedicated training facility to equip employees with the necessary skills and knowledge in HV (high voltage) vehicle production.





INDUSTRY  
ULTRA-LUXURY  
CARS

LOCATION  
ENGLAND AND  
WALES

## OPERATIONS: SUSTAINABLE MANUFACTURING AND SUPPLY CHAIN

Sustainability must extend beyond tailpipe emissions and encompass the entire manufacturing process, and as such Aston Martin aims to have net-zero manufacturing facilities by 2030. To reach this target, Aston Martin plans to use 100% renewable electricity in its manufacturing operations and reduce CO2 emissions from both its own manufacturing operations and decrease product emissions by reducing the energy consumption per car by 2.5% year-over-year. Planned implementation of ISO 50001 energy management systems at key manufacturing facilities by 2025 will further enhance energy efficiency.

In 2022, Aston Martin achieved several milestones supporting these goals: 1) all UK operations were powered with 100% renewable electricity, 2) CO2 emissions per car manufactured decreased 3.9% compared to 2021 (Scope 1 CO2 emissions), and 3) electricity consumption decreased by 12.2% (MWh).

Looking forward, Aston Martin aims to achieve a 30% reduction in supply chain emissions by 2030 compared to 2020 levels and ultimately achieve net-zero emissions across the entire supply chain by 2039. Additionally, Aston Martin aims to certify all batteries in its future BEV fleet as circular and renewable, with a focus on high-yield recyclability.

## SUSTAINABLE INNOVATION: DRIVING EFFICIENCY AND REDUCING CO2 EMISSIONS

The company is exploring various sustainable innovation initiatives, such as the use of additively manufactured structures and suspension, which can save over 20% of mass compared to conventional technology while reducing carbon-intensive processes. This approach not only lowers energy consumption during manufacturing but also improves energy efficiency and minimizes carbon-intensive processes. Aston Martin is also exploring the use of sustainable materials in its products, such as tires made from

bio-based oils, resins, and bio-sourced silica, as well as wheels manufactured using recycled aluminum.

### Targets

100%  
by 2030

- **ELECTRIC VEHICLE PORTFOLIO**

100%  
by 2030

- **NET-ZERO MANUFACTURING FACILITIES**

30%  
by 2030

- **REDUCTION IN SUPPLY CHAIN EMISSIONS COMPARED TO 2020**

100%  
by 2039

- **NET-ZERO EMISSIONS ACROSS THE ENTIRE SUPPLY CHAIN**





INDUSTRY

COAL COMBUSTION  
ALTERNATIVES

LOCATION

UTAH,  
USA

## FINANCING THE EXPANSION OF A KEY PRODUCT TO DECARBONIZE CEMENT AND CONCRETE

*Eco Material Technologies was established in early 2022 through the merger of Green Cement Inc., a producer of low-carbon cement alternatives, and Boral Resources, Boral Limited's North American fly ash business. Canyon Partners provided the debt financing necessary for the acquisition of Boral Resources and the formation of Eco Material through a private placement of Senior Secured Green Notes, aligned with the Green Bond Principles.*

### CONTEXT AND GOALS

Eco Material is a producer of supplementary cementitious materials (SCMs)—low-carbon replacements for cement—and is active in marketing and distributing fly ash, a byproduct of coal combustion, holding approximately 50% of market share by volume. The financing for Eco Material's formation contributes to the transition to a low-carbon economy by supporting a solution to reduce greenhouse gas emissions in a high-emitting sector.

### DECREASING THE CARBON FOOTPRINT OF CONCRETE

Manufacturing cement, a key component of concrete — the second most-used material globally after water —

generates 8% of global CO<sub>2</sub> emissions,<sup>1</sup> which is three times more than the aviation industry<sup>2</sup> and accounts for the majority of emissions allocated to concrete. According to the IEA, cement production's CO<sub>2</sub> emissions intensity plateaued from 2018 to 2023 with a slight increase in 2022.<sup>3</sup>

Using low-carbon cement replacements such as supplementary cementitious materials (SCMs) can reduce the carbon emissions of concrete by 99%<sup>4</sup> while providing additional benefits. Eco Material's fly ash can substitute approximately 20% of Portland cement in concrete mixes, and its engineered pozzolanic cement — PozzoSlag — which is 20% stronger than Portland cement,<sup>5</sup> can replace up to 100%.<sup>6</sup>

<sup>1</sup> Johanna Lehne and Felix Preston, "Making Concrete Change: Innovation in Low-carbon Cement and Concrete," Chatham House, June 13, 2018, <https://www.chathamhouse.org/2018/06/making-concrete-change-innovation-low-carbon-cement-and-concrete>.

<sup>2</sup> Isabel Malsang, "Concrete: The World's 3rd Largest CO<sub>2</sub> Emitter," PHYS.ORG, October 19, 2021, <https://phys.org/news/2021-10-concrete-world-3rd-largest-co2.html>.

<sup>3</sup> "Cement," IEA, accessed August 8, 2023, <https://www.iea.org/energy-system/industry/cement>.

<sup>4</sup> Eco Material Technologies, "Eco Material Technologies Qualifications Summary," accessed August 8, 2023, <https://ecomaterial.com/wp-content/uploads/2023/02/EM-Statement-of-Qualifications.pdf>.

<sup>5</sup> Eco Material Technologies, "About Eco Materials Technologies," accessed June 6, 2023, <https://ecomaterial.com/about/>.

<sup>6</sup> Sustainable Fitch, Eco Material Technologies, Inc. ESG Ratings Research. January 24, 2022. [https://assets.ctfassets.net/03fbs7oah13w/5j6qQE3BF0RDHoMJrsODS/6415deeabab22e6ae7e21412a14ac53c/Eco\\_Material\\_Technologies\\_ESG\\_report\\_2022Jan24.pdf](https://assets.ctfassets.net/03fbs7oah13w/5j6qQE3BF0RDHoMJrsODS/6415deeabab22e6ae7e21412a14ac53c/Eco_Material_Technologies_ESG_report_2022Jan24.pdf).





INDUSTRY  
COAL COMBUSTION  
ALTERNATIVES

LOCATION  
UTAH,  
USA

## TRANSFORMING COAL WASTE INTO SUSTAINABLE BUILDING MATERIALS

Eco Material repurposes approximately 7 million tonnes of fly ash annually,<sup>1</sup> as a low-carbon replacement for Portland cement in their SCM product line. This process transforms fly ash, a waste product from coal-fired power plants of which 50% has no other visible use, into a high-quality product for commercial use in concrete. As a result, waste is diverted from landfills; currently, approximately 75% of fly ash produced from coal combustion globally is disposed of in landfills or surface impoundments.<sup>2</sup> Eco Material is also harvesting previously landfilled fly ash as their operations expand.<sup>3</sup>

Eco Material notes in their 2022 ESG Report, “[this financing] permits Eco Material to use a higher proportion of previously unmarketable fly ash and accelerate the shift towards sustainable sources of SCMs, adding to the circular economy by beneficially using a waste stream previously landfilled.”

Canyon’s debt financing for Eco Material directly supports decarbonization of one of the top ten emissions-intensive industries. As part of our sustainability-oriented strategy, we focus on market opportunities integral to the transition to a low-carbon economy, all without sacrificing essential materials or a focus on investment returns.

<sup>1</sup> Sustainable Fitch, Eco Material Technologies, Inc. ESG Ratings Research. January 24, 2022. [https://assets.ctfassets.net/03fbs7oah13w/5j6qQE3BF0RDHoMJsrSODS/6415deeabab22e6ae7e21412a14ac53c/Eco\\_Material\\_Technologies\\_ESG\\_report\\_2022Jan24.pdf](https://assets.ctfassets.net/03fbs7oah13w/5j6qQE3BF0RDHoMJsrSODS/6415deeabab22e6ae7e21412a14ac53c/Eco_Material_Technologies_ESG_report_2022Jan24.pdf)

<sup>2</sup> “User Guidelines for Waste and Byproduct Materials in Pavement Construction,” US Department of Transportation Federal Highway Administration, March 8, 2016, <https://www.fhwa.dot.gov/publications/research/infrastructure/structures/97148/cfa51.cfm>.

<sup>3</sup> Eco Material Technologies, 2022 ESG Report, pg. 20, [https://ecomaterial.com/wp-content/uploads/2023/06/EM-ESG-Report\\_6-14-23.pdf](https://ecomaterial.com/wp-content/uploads/2023/06/EM-ESG-Report_6-14-23.pdf)



INDUSTRY  
LONG-DISTANCE  
BUS COMPANYLOCATION  
MUNICH,  
GERMANY

## DRIVING DISRUPTIVE CHANGE: HOW FLIXBUS' MODEL INCREASES AFFORDABILITY AND DECREASES EMISSIONS FOR INTERCITY BUS TRAVEL

*FlixBus was formed in Munich in 2013, as the German government opened the long-distance bus sector to private companies. The company launched with the aim of addressing inefficiencies in the mid- to long-distance bus sector by leveraging technology and digitalization. Currently, FlixBus offers intercity bus services throughout Europe, the United States, and Brazil. The company partners with over 300 independent bus companies to operate its routes, while FlixBus manages the marketing, ticket sales, and customer service. FlixBus optimizes costs by using digital systems to manage its network efficiently through innovative smart-grid planning and dynamic price management.<sup>1</sup> In the US the company applies the same tech stack to an owned fleet.*

*In 2021, Canyon Partners became the sole lender to FlixBus through a €125M loan. Recognizing the potential long-term benefits for the company, Canyon integrated sustainability topics into ongoing conversations with FlixBus. Specifically, Canyon encouraged FlixBus to optimize and expand green initiatives throughout their operations and begin disclosing these efforts publicly in order to maximize the benefits of new and established sustainability initiatives. Canyon also encouraged FlixBus to release their 2022 Sustainability Report, the first in the company's history. Drawing upon our industry expertise, Canyon Partners supported FlixBus in identifying opportunities where heightened sustainability integration and disclosure aligns with the company's financial and growth objectives.*

### CONTEXT AND GOALS

Demand for sustainable travel is increasing in the face of growing climate change concerns. According to Booking.com's 2021 Sustainable Travel Report, 61% of travelers noted that the pandemic made them reconsider their travel habits and want to travel more sustainably in the future.<sup>2</sup> Currently one quarter of global greenhouse gas emissions is allocated to the transportation sector.<sup>3</sup>

Through Canyon's partnership with FlixBus, we aim to enhance the company's competitive advantage in sustainability, advancing their vision of providing sustainable, affordable mobility for all.

<sup>1</sup> ""About Flix," FlixBus, accessed August 8, 2023, <https://www.flixbus.com/company/about-us>.

<sup>2</sup> Booking.com, "Booking.com's 2021 Sustainable Travel Report Affirms Potential Watershed Moment for Industry and Consumers," June 3, 2021, <https://globalnews.booking.com/bookingcoms-2021-sustainable-travel-report-affirms-potential-watershed-moment-for-industry-and-consumers/>.

<sup>3</sup> UN Environmental Programme, "Transport," accessed August 8, 2023, <https://www.unep.org/explore-topics/energy/what-we-do/transport>.





# FLIXBUS

INDUSTRY

LONG-DISTANCE  
BUS COMPANY

LOCATION

MUNICH,  
GERMANY

## A GREENER TRANSPORT FUTURE

FlixBus is committed to offering affordable and sustainable transportation, with the vision of "[enabling] everyone who wants to discover the world to enjoy smart, sustainable mobility." Initially, by integrating a network of bus operators, emissions from bus travel were decreased on a per-passenger basis. This was achieved through FlixBus' efforts to optimize seat utilization through routing, marketing, payment, and ticketing support. Before FlixBus' involvement, operators often ran at only 40 to 50% capacity. Afterwards, bus operators experienced up to 85% capacity on their most popular routes.

By 2040, FlixBus aims to offer carbon neutral travel in Europe. To decrease emissions from travel booked on FlixBus, the company uses buses compliant with Euro 6 vehicle emissions standards. Approximately 95% of the company's European fleet consists of Euro 6-compliant vehicles. As FlixBus expands its approach to emissions reduction, the company is

introducing new vehicles and expanding into additional modes of transportation. For example, FlixBus established FlixTrain in 2018, a train route running on 100% green energy in Germany and Sweden. Recently, the company also launched a program in 2021 to pilot biogas-powered buses on several European international routes. In 2023, FlixBus partnered with Daimler Buses and the German government to develop fully electric long-distance buses within the next 4 years.<sup>1</sup> FlixBus had previously launched the first electric express bus in Portugal in 2021, traveling from Bragança to Porto, through a partnership with the bus company Auto Viação Feirense.<sup>2</sup>

## DRIVING MOBILITY FOR ALL

FlixBus seeks to provide affordable and accessible transportation—connecting people and communities in over 40 countries. Increased availability of affordable transportation provides greater connectivity for communities in remote and sparsely populated areas,

and greater access for passengers with limited financial resources and/or reduced mobility. With FlixBus, companions of passengers with disabilities or limited mobility travel free of charge.

Prior to FlixBus, bus routes did not directly serve many rural destinations throughout Europe, making travel expensive, inconvenient, and often unfeasible for thousands of residents. FlixBus has since enabled access to mobility and work opportunities for these communities, democratizing travel. For example, FlixBus is the first bus provider to offer a Europe-wide network, critical for enabling seasonal workers to travel between their host and home countries. In 2022, 30% of destinations serviced by FlixBus networks had less than 20,000 inhabitants.<sup>3</sup> In Europe, the percentage of these destinations is even higher, reaching 78% in Croatia, 41% in Poland, and 40% in Italy.<sup>4</sup>

<sup>1</sup> FlixBus, "Flix and Daimler Buses Join Forces to Enhance E-mobility," January 11, 2023, <https://corporate.flixbus.com/flix-and-daimler-buses-join-forces-to-enhance-e-mobility-in-long-haul-bus-transport-with-new-zero-emission-full-electric-technology/>.

<sup>2</sup> "Nora Manthey, "Flixbus Launches First Intercity E-Bus Service in Portugal," [electrive.com](https://www.electrive.com/2022/07/03/flixbus-launches-first-intercity-e-bus-service-in-portugal/), accessed March 7, 2022, <https://www.electrive.com/2022/07/03/flixbus-launches-first-intercity-e-bus-service-in-portugal/>.

<sup>3</sup> FlixBus, "2022 Sustainability Report: Driving The Mobility (R)Evolution", pg. 18, <https://presspage-production-content.s3.amazonaws.com/uploads/2327/ff9f007f-05e6-4bfb-afe2-057e41952461/flixgroupsustainabilityreport20223.pdf?10000=>

<sup>4</sup> FlixBus, "2022 Sustainability Report: Driving The Mobility (R)Evolution", pg. 49, <https://presspage-production-content.s3.amazonaws.com/uploads/2327/ff9f007f-05e6-4bfb-afe2-057e41952461/flixgroupsustainabilityreport20223.pdf?10000=>





# LOOKING FORWARD

AREAS OF FOCUS FOR  
**CANYON'S FUTURE**

1

GROWING & EMPOWERING  
**NEXT GENERATION**  
OF TALENT

2

FOSTERING  
**INTEGRATION**  
ACROSS THE FIRM

3

EVOLVING  
**PRODUCT SUITE**  
TO MEET THE NEEDS OF  
OUR INVESTORS

4

PROMOTING  
**GOVERNANCE  
& ENGAGEMENT**





## DISCLOSURES

The information provided in this report reflects Canyon Partners' approach to ESG as of the date of this report and is subject to change without notice. We do not undertake to update any of such information in this report.

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## CANYON PARTNERS

2728 North Harwood Street

Dallas, TX 75201

Phone: +1 (214) 253-6000

## INVESTOR RELATIONS

Phone: +1 (214) 253-6100

E-mail: [IR@canyonpartners.com](mailto:IR@canyonpartners.com)