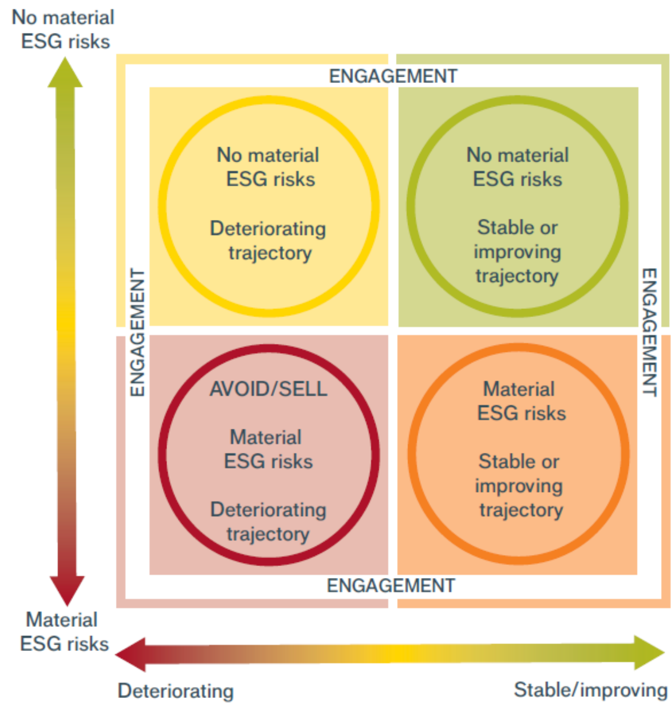
KAPSTREAM CAPITAL ENVIRONMENTAL, SOCIAL, AND GOVERNANCE POLICY

Kapstream believes that factors affecting long-term corporate sustainability, including environmental, social and governance (ESG) considerations should be incorporated within fundamental investment processes. These factors play an increasingly important role in many industries and the investment community's greater focus on these initiatives will have a correspondingly amplified impact on company valuations in the future. Business sustainability issues such as these can impact an issuer's ability to generate long-term returns, either through a lack of understanding of potential risks to a business or a failure to embrace future opportunities.

Kapstream believes environmental and social factors are important drivers of investment performance over the longer term, however as a fixed income investor we are most concerned about governance risk and the impact of sudden negative changes to an issuer's capacity to service its debts. These types of event tend to occur most frequently when the market is surprised by some significant unexpected disclosure which causes a loss of confidence in the issuer and markets become unwilling to continue to lend to them.

Our primary source of information for ESG risk assessment comes from research provided by Sustainalytics and MSCI ESG as well as disclosures provided by issuers directly. If ESG disclosures are incomplete, Kapstream requests completion of ESG questionnaires standardised by industry. In addition, Kapstream also evaluates other information such as Corporate Governance Quotient scores provided by Institutional Shareholder Services Inc. and ESG disclosure scores provided by Bloomberg. We evaluate the trends in the company's scores as well as the absolute and relative scores compared to the company's peer group. Corporate governance considerations include items such as board structure, compensation policy, shareholder rights and audit and accounting quality.

Each issuer is rated using a proprietary internal 'traffic lights' rating system. The purpose is to identify issuers that are the most at risk from a ESG perspective and to make issuers from different industries more comparable. Two broad factors are taken into account, *Materiality* and *Trajectory*, and each issuer is classified into one of four categories:



- Green indicates limited ESG risks, and stable or improving trajectory;
- Yellow indicates limited ESG risks, and a deteriorating trajectory;
- Orange indicates material ESG risks, but a stable or improving trajectory;
- Red indicates material ESG risks, and a deteriorating trajectory.

In assessing *Materiality*, Kapstream considers the following risks in deciding on a weighted score in the proportions indicated:

- *Industry Risk (25%)*
  Each issuer is classified by industry according to the SASB system (https://www.sasb.org/find-your-industry/). Each industry is then assigned a score according to the number of potentially material industry risks (https://materiality.sasb.org/).

- *Country of Risk (10%)*
  Two issuers in a similar sector will have a different level of risk according to the country they operate in.

- *Management of Industry Risk (25%)*
  How are the identified risks managed by the issuer? Is there sufficient disclosure?

- *Idiosyncratic Issues/Controversies (40%)*
  Are there any issues that are not identified as part of industry risk? This also covers ESG targets. Are they relevant and ambitious?

In considering *Trajectory*, Kapstream undertakes both quantitative and long-term qualitative assessment to determine a view of whether identified ESG risks are improving or deteriorating.

Kapstream believes that investments in issuers categorised 'red' should not be systematically avoided or sold. Instead, we endeavour to engage with those issuers, and based on that engagement, if we are not satisfied that improvement will be forthcoming, the issuer is avoided or existing positions are sold as soon as practically possible. Issuers of concern under the 'yellow' and 'orange' categories are engaged with when there are specific concerns and/or lack of disclosure.

While ESG considerations are included in our investment process they are rarely the primary factor in our investment decisions. Our general bias to risk aversion and mitigation tends to naturally direct investments to countries and companies with good environmental, social and governance standards, so the investment risk associated with these factors is typically low. Kapstream also evaluates ethical standards primarily as they relate to corporate behavior.

Assessment of ESG risks is particularly useful as a screening tool to eliminate issuers that may have hidden risks that are not being reflected in security pricing. For example, if we are considering two securities for inclusion in portfolios, both of which have similar tenor, rating and return characteristics however wildly different governance scores, we would favour the issuer with the better governance score as over the longer term these types of issuers are less likely to have negative event risk. This is by no means a certainty but it is an additional risk we can work to reduce. Where Kapstream does choose to invest in companies with relatively weaker governance scores, we would likely take on a smaller than normal exposure to the name or demand a higher risk premium as compared to its peers. Once included in portfolios, issuers are monitored daily for any material changes to their ESG performance in addition to Kapstream's other investment criteria. To the extent one of these factors changes our view on the risks of the investment, Kapstream will evaluate if the position should be reduced in size or fully exited.

Kapstream is a signatory to the United Nations Principles of Responsible Investment (UNPRI) framework.

Further, and driven by ESG concerns, Kapstream elects to exclude specific industries from its investment universe, a position reviewed periodically. Companies or entities that generate 10% or more of their total sales from the following industries are generally excluded:

- Armaments
- Tobacco

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