Trilogy and Effective Investor Stewardship

Principle 1: Institutional Investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

As an institutional investor, Trilogy is committed to preserving and growing the assets that our clients entrust to us. Our stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration, as well as environmental and social factors which we believe can affect investment performance, create potential investment risks and provide an indication of management's corporate stewardship and responsibility. Trilogy incorporates stewardship considerations fully into our investment process. To the extent that a company is pursuing policies and practices which we believe are harmful to the long-term value of a company, those policies are factored into our valuation analysis of a company. We do this through scenario modelling by quantifying the impact on current earnings, quantifying the impact on the long-term growth of earnings from penalties and customer perception, and quantifying the impact on valuation from continuing to pursue these policies. In the same way we factor into our investment analysis the extent to which a company is pursuing policies and practices which we believe benefit the value of the company. We are proactive in identifying these issues by methodically screening our holdings. Trilogy uses a third party service provider, MSCI Impact Monitor, to evaluate companies on their strategies as well as on their performance with respect to ESG. To the extent that companies score poorly on these screens, we review the impact of the specific issue on revenues, profitability, earnings, capital requirements and valuation.

We carry out engagement activities in our meetings with over 1,000 companies each year. Where a company scores poorly, our analysts prepare a summary of those issues which we can raise with management in order for them to improve their overall governance. We also have clear internal escalation policies and documented response procedures to ensure that issues are pursued to as satisfactory outcome as possible.

In July 2012, Trilogy became a signatory to the United Nations Principles of Responsible Investing ("UNPRI"). The UNPRI is a global network of international investors, asset managers and service providers who have committed to considering the investment implications of ESG factors where appropriate and consistent with their fiduciary duty. The UNPRI provides a voluntary framework by which signatories can incorporate ESG issues into their decision-making and investment process in order better to align their objectives with those of society at large. We participate in a Collective Engagement initiative facilitated by the UN PRI. This gives us the option, in addition to proxy voting decisions, to join or not with other institutional investors in 'collective voting' on specific issues. It also allows us to raise and sponsor our own issues, via this service, where we believe collective action is justified. We have only just initiated this project.

Principle 2: Institutional Investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publically disclosed

Trilogy has a clear conflict of interest policy which is disclosed to its employees and must be confirmed as read annually. The firm expects each employee to avoid any situation that presents an actual, apparent or potential conflict between the employee's personal interest and our duties and obligations to our clients, the firm and the law. This includes restricting any outside directorships, trustee roles and other responsibilities which may influence Trilogy's appointment as a manager. All such external roles have to be declared each quarter and approved by Trilogy's Head of Compliance. Rules governing personal dealing and (in the case of public funds), external directorships or fiduciary roles (which may affect Trilogy's appointment as a manager), political donations, as well as accepting or offering gifts, entertainment and corporate hospitality, are clearly delineated and monitored effectively. In implementing transactions for our clients, we allocate all trades equally to clients on a pro-rata basis proportionate to their size. No individual client interests take precedence in the allocation of capital based on their size, importance, profitability or significance to Trilogy. Where clients have individual stock restrictions which prevent them from participating in these bulk trades, we point out to them that this may impact their ability to benefit from the scale advantages that trading in size can yield. As an affiliate of AMG, we would never hold AMG stock in client portfolios or vote at its shareholder meetings. Our internal code of conduct stresses high ethical standards and a focus on optimizing stewardship outcomes for our clients.

Where a conflict of interest arises, it is adjudicated upon by Trilogy's Head of Compliance and, if necessary, escalated to Trilogy's Executive Committee for a final decision and any disciplinary measures.

Principle 3: Institutional Investors should monitor their investee companies

Companies are scored on a monthly basis and those that receive the lowest scores require additional evaluation by Trilogy Research Analysts. Analysts use MSCI Impact Monitor to review specific issues that have affected the score. Further evaluation is conducted using the Sustainability Report of the company in question as well as through direct contact with the company. Analysts raise relevant issues during our numerous visits with company management throughout the year. We are not willing to be made insiders and we explicitly request that companies do not share any price-sensitive or other information with us which is not also available to the market.

When monitoring companies, our analysts focus on the following issues:

• Environment – land use & biodiversity, toxic spills & releases, energy & climate change, water management, operational hazardous waste, impact of product & services and supply chain management
• Human Rights & Community Impact – adverse impact on local communities, support for controversial regimes (Burma, Sudan and other countries), freedom of expression & censorship and human rights abuses
• Labor Rights & Supply Chain – labor management relations, employee health & safety, supply chain child labor, collective bargaining & unions, discrimination & workforce diversity and supply chain other contraventions
• Governance – business ethics: bribery & fraud, quality of company leadership and company reporting, departures from the UK Corporate Governance Code, controversial investments and governance structures

We maintain a library of our company analysis in a consistent framework which also includes a summary of ESG engagement questions specific to several sectors.

We score and rank a company in terms of downside risk and expected returns, by modeling three scenarios - a pessimistic case, a base case and an optimistic case – which we believe encompasses the 'funnel of risk and return' unique to each company. These risks combine economic and governance risks.

Principle 4: Institutional Investors should establish clear guidelines on when and how they will escalate their stewardship activities

We have introduced specific standards into our proxy voting service that we expect companies to meet in the areas of corporate governance, executive pay and contracts, Board diversity as well as environmental policies. We have found in our research that 75% of poor stewardship ratings for companies are caused by corporate governance issues which is why we have highlighted corporate governance in our customized proxy voting activity. These are also the issues which we have a policy of escalating in our interventions with companies.

We carry out engagement activities in our meetings with over 1,000 companies each year. Where companies score poorly, our analysts prepare a summary of the stewardship issues most relevant to that company which we can raise with management in order for them to improve their overall governance, typically in the four areas listed above. Where we do not receive adequate responses from companies on these issues, we follow up with more questions by email or request additional meetings or site visits. If we find that this form of intervention is unproductive, we have various means by which we can escalate our engagement, including exercising our clients' voting rights and informing companies when we vote against their proposals and via collective action as described below.

In terms of measuring the outcome of our interventions, we provide companies with a series of goals which we reasonably expect them to have met over a specified time period and which we can review in our future interactions with them. We monitor their progress as well via the changes in their score via MSCI Impact Monitor.

Principle 5: Institutional Investors should be willing to act collectively with other investors where appropriate

We participate in a Collective Engagement initiative facilitated by the UN PRI. This gives us the option, in addition to proxy voting decisions, to join or not with other institutional investors in 'collective voting' on specific issues. It also allows us to raise and sponsor our own issues, which we summarize in Principle 6 below, where we believe collective action is justified. This is an initiative we have formalized in 2016. We will publicize our collective engagement actions on our website in 2017.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity

We have upgraded our proxy voting service from ISS' standard service to their Speciality Sustainability and SRI Proxy Voting Guidelines. This means that we have 'raised the bar' or introduced specific standards that we seek companies to meet in the areas of corporate governance, executive pay and contracts, Board diversity as well as environmental policies, as follows:

We vote against a board nominee if that nominee is non-independent and the full board is less than 2/3 independent or the nominee is an incumbent nominating member and the board is less than 20% diverse (female or racially diverse).

We vote against Say on Pay proposals:

- If there is a misalignment between CEO pay and company performance
- If the company maintains problematic pay practices without a clear rationale, or
- If the board exhibits a significant level of poor communication and responsiveness to shareholders
- More than half the peer group comprises of companies that exceed 1.5 times the company's revenues/assets;

We vote against Equity Compensation Plan proposals if the plan:

- Receives a total score of fewer than 56 points under ISS' Equity Plans Scorecard Analysis;
- Expressly permits the repricing or exchange of underwater options/stock appreciate rights (SARs) without prior shareholder approval;
- Significantly contributes to a pay-for-performance disconnect;
- Is a vehicle for problematic pay practices; or
- Contains a liberal definition of "change in control" and the equity awards could vest upon such liberal definition of change-in-control.

Establish Board Diversity

- Generally vote for shareholder proposals that ask the company to take steps to nominate more women and racial minorities to the board
- Generally vote for shareholder proposals asking for reports on board diversity
- Generally vote for shareholder proposals asking companies to adopt nomination charters or amend existing charters to include reasonable language addressing diversity

Establish Environmental/Social Board Committee

- Generally vote for shareholder proposals to establish a new board committee to assess the company's policies and response to environmental and social issues when the formation of such committees appears to be a potentially effective method of protecting or enhancing shareholder value. In evaluating such proposals, the following factors will be considered:
- Existing oversight mechanisms
- Levels of disclosure regarding the issue for which board oversight is sought;
- Company performance related to the issue for which board oversight is sought;
- Board committee structure compared to that of other companies in its industry sector; and
- The scope and structure of the proposal.

All clients are advised annually that full details of our voting record are available upon request, as some clients do already. We inform companies of our decision to vote against specific resolutions and we will be making public on our website the instances where we have voted against management's proposals and the reasons why, as certain clients require us to do already.

We do not participate in any stock-lending activities. As a result, we vote all our clients' shareholdings and do not have stock lent out at any time which we cannot vote.

<u>Principle 7: Institutional Investors should report periodically on their stewardship and voting activities</u>

We maintain a clear record of our stewardship activities. Every portfolio company has up-to-date analysis maintained upon it including our return and risk assumptions, ESG issues and notes of our intervention with company management. This are available to clients. We are also able to provide clients with a number of bespoke reports which benchmark their portfolio as managed by Trilogy with a 'carbon footprint' score, revealing a client portfolio's exposure to carbon assets, or with an 'ESG score' based on a company's ESG ratings as calculated by MSCI. We disclose our voting activities to clients which we are happy to customize depending on the quantity and quality of information they require. We will also be publicizing on our website the instances where we vote against management and the reasons for this. Clients are increasingly asking for examples of company interventions and we are happy to be fully transparent about these. We will also be commissioning an independent review of our engagement and voting processes. This will be publically available in 2017 and our intention is to commission this bi-annually.