Environmental, Social and Governance (ESG) Investment Policy Statement

Introduction

Anchor Capital has been managing money for almost forty years by looking for what we consider to be high quality companies early in their life cycle and holding them for long periods of time. We believe we can generate competitive risk-adjusted returns over a market cycle through a portfolio of companies that combines financial strength, a sustainable competitive moat and attractive valuations.

Throughout Anchor's history we have excluded certain industries or companies that we feel have a negative contribution to social and environmental good such as alcohol, tobacco, gambling, firearms, and global sanctions. Therefore, full ESG integration was a natural extension to our fundamental research process. ESG risks and opportunities are analyzed throughout all phases of our investment process.

We are a member of the United Nations Principles of Responsible Investing (UNPRI) and fully support the Principles for Responsible Investment. We will continue to participate in educational and training opportunities to enhance the collective intelligence and best practices of the firm with regard to ESG research, standards, integration and voluntary disclosure reporting practices.

Our boutique structure allows us to provide fully customized portfolio solutions. As such, we welcome and encourage dialogue with our clients who may need customized portfolios based on ESG factors.
The purpose of this policy document is to formalize Anchor's process of incorporating responsible investing into its investment process.

Objectives

Our objective is to generate competitive risk-adjusted returns to our clients, which we believe includes assessing ESG risks and opportunities as part of our investment process. We support the Principles for Responsible Investment, as outlined by the UNPRI, and we commit to transparency and consistency as we implement ESG research as part of our investment process, risk controls, and capital allocation. We seek to continuously improve our process and update our policy accordingly.

Our goal is to maintain internal research coverage and an ESG rating system of our portfolio holdings. We have the data and analytical resources to measure progress and performance over time. We track a number of ESG factors and measure our portfolios against relevant benchmarks. In particular, we track carbon and water intensity, a number of social factors such employee turnover, number of employee fatalities, and governance issues such as board independence, women on boards and CEO pay.

We also strive to incorporate companies integrating more positive ESG factors such as renewable energy, green technology, and clean water, while avoiding those companies with negative factors alcohol, tobacco, gambling, firearms, and global sanctions. Part of our process includes allocating our portfolio to align with several of the UN Sustainable Development Goals (SDGs).

We have always felt that our in-depth bottom up fundamental research process led to better engagement opportunities with management teams of portfolio holdings. In many cases we have actively engaged with company's management and board of directors in order to foster change and improve the outcome for all stakeholders.

We are long term investors and it is important to factor in climate change risk into our portfolios. We are committed to publicly disclose the carbon footprint of our products on a regular basis. We periodically measure the weighted average carbon intensity score (tons CO2 emissions/USD million sales) of our portfolios and strive to keep it below relevant benchmarks.

Investment Philosophy and Approach

Our investment philosophy puts equal emphasis on the fundamental (including ESG risk management), sustainable and valuation picture for any company we consider for Anchor portfolios. We find that our portfolio companies – despite being selected based entirely on their investment merits – are also clear generators of positive social and environmental impact in the vast majority of cases.

On the fundamental investment side, Anchor's in-house research team looks for what we consider to be high quality companies at attractive valuations. The first step for Anchor is to exclude the worst 20% of the stocks in each sector based on an overall ESG score. Then we utilize a negative screen on social and governance areas and exclude defense, gambling, tobacco and heavy industry stocks among others. Next, as we go through the bottom up review of a company we add the element of our ESG research, as described in the section below. It involves assessing the ESG risks and opportunities for each company and the long term potential impact on the company. We also actively engage with the companies that we invest with on governance and other issues.
After a stock is approved, we carry that ESG assessment to the portfolio construction and risk management process, where we make inclusion and sizing decisions. From there, we monitor the performance and characteristics of the portfolio holdings including specific ESG data, which is viewed both in absolute and relative to a benchmark terms.

We utilize outside third party data providers, such as MSCI ESG and the United Nations, to provide us the granular data we need for monitoring our portfolios. Between our outside data providers and our internal research and assessment, we are able to provide an ESG rating for our portfolio companies.

ESG Research and Integration

Anchor has been integrating ESG factors into its research for many years and it is integral to the investment process. In our research efforts, our analysts are not only looking at the sustainability of the business model (sustainable competitive moats), the strength of the management team and prudent financial outlook. The analyst examine ESG factors specific to that company and attempt to forecast the potential financial impact, ranging from risks (litigation, reputation) to potential opportunities (generating new sources of revenue).

Broadly, Anchor focuses on the major categories of ESG and then the sub categories within each of those. Each industry has its own set of material issues that we seek to identify and assess as part of our research process. The in-depth research process includes a checklist that focuses on ESG factors.

The three major areas that we include in our analysis:

- **Environment**: carbon emissions, energy efficiency, water and air pollution, material recycling.
- **Social**: health and safety, labor practices, supply chain controversies, community impact.
- **Governance**: board diversity and independence, executive compensation, accounting controversies.

The ESG research process is standardized under the following steps:

Identify: The analyst identifies the range of material ESG issues that are relevant to the company and industry. While a comprehensive assessment is completed, the analyst will focus on those issues with the greatest impact to the firm and shareholders.

Gather: The analyst will gather information from a range of resources, including news outlets, technical and academic experts, government agencies, non-government organizations, ESG data providers, and the company itself.

Evaluate: We will assess the impact of potential ESG and other risks on the firm's strategy and financial outlook, which allows us to determine if the investment is something we want to purchase for client portfolios and the weightings of those investments.

Impact Themes:

Our search for fundamentally strong companies with sustainable competitive moats leads us to compelling investing ideas that span a wide range of business models and industry opportunities. We also seek to cover a wide range of impact themes across the portfolio, from climate action to good health and well-being to responsible consumption and production.

Categorizing each company's impact is not an exact science. Our research is based on both objective data and subjective analysis, and many companies produce impact on multiple fronts. Our impact themes are broadly aligned with the U.N. Sustainable Development Goals (SDGs).

ESG/Responsible Investing (RI) Oversight and Accountability

Anchor Capital's investment team has responsibility for the ESG/RI strategy, oversight and integration of ESG. Anchor's CIO, reviews and approves the ESG/RI strategy annually.

The investment committee, comprised of all portfolio managers and analysts, assess all material factors, including ESG considerations, in its review of individual securities. The investment Committee is responsible for all ESG integration. Many of the professionals on the Investment Committee have experience with ESG in addition to traditional research. The work of the Investment Committee results in a thorough assessment of a company's appropriateness for client portfolios.

With respect to proxy voting, the Chair of the Proxy Voting Committee oversees the process from creation of proxy voting guidelines to casting of votes. We have built a database of important governance metrics for each our portfolio holdings that we utilize in making proxy voting decisions.

Monitoring and Reporting

Anchor has established procedures to ensure continuing monitoring and reporting practices with all parties involved with the ESG process. Maintaining an open dialogue about portfolio holdings, clients and all relevant organizations is an integral part of our monitoring and reporting.

To date we have not been required to externally report our responsible investment activities. However, we have implemented a number of regular reviews.

- Quarterly internal review: Our investment committee evaluates ESG integration processes, company ESG ratings, carbon footprint of portfolios and engagement activities with portfolio companies.
- Annual Disclosure: On at least an annual basis, Anchor provides clients the right to request information on our responsible investment activities.
- Data Assurance: Both internal ESG research and third-party company ESG ratings are monitored to ensure all the latest information is incorporated; third party carbon emissions data is updated annually while portfolio level reports can be provided to clients upon request.

Focus Area: Climate

Climate change is one of the world's most pressing environmental issues. It has become a focus of global attention in the last few years with the Paris Agreement, which aims to strengthen the response by countries working to keep the global temperature rise this century well below 2 degrees Celsius, above pre-industrial levels, and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.[1] Many companies are increasing reporting of their carbon output and our preference is to identify companies are that focused on pursuing a path towards a carbon neutral future. We would like to see companies set greenhouse gas (GHG) emissions reduction targets. Furthermore, our investment approach seeks more asset light business models that are less impacted by GHG exposure.

In analyzing companies and how they can potentially be affected by climate change, we look at both transition risks and physical risks. Potential materiality of climate related issues depends on a company's sector/industry and its own operating model.

Under transition risks we analyze and incorporate into our analysis the following risks:

- Regulatory Risk – how prepared is the company for change in carbon regulation.
- Operating Risk – business operations at risk due to impacts of climate change.
- Reputation Risk – how companies are viewed by key stakeholders and customers.
- Litigation Risk – lawsuits against companies for alleged failure to disclose climate risk.

In addition, we also incorporate the physical risks that could potentially arise. Some examples of physical risk include the following. For insurance companies we have to be concerned about them underwriting business in areas that have the potential for rising sea levels. For utility companies, in certain parts of the country, we have to be concerned about causing wildfires and loss of life, property and lives.

1 https://unfccc.int/process-and-meetings/the-paris-agreement/what-is-the-paris-agreement

We also seek to identify companies that have opportunities with products, services or processes that can mitigate climate risk. Some example of potential opportunities include development of solar panel technology and manufacturing connectors and sensors that are integral to electric vehicles.

Focus Area: Diversity, Inclusion and Equality

We believe an area of good governance includes management of human capital, a protective labor environment and anti-corruption policies. Many of these principles are outlined in the United Nations Global Compact and we look for our portfolio companies to be signatories of the Global Compact.

We believe those companies with policies in place to promote and foster an environment of diversity and inclusion are important not only to increased worker satisfaction and productivity, an ability to attract and retain top talent and reduce employee turnover, but also contribute to long term success. Diverse leadership improves decision making and better reflects the demography of the employees and customer base. In contrast, poor management can potentially introduce reputation and litigation risk.

A key area that we focus on in our research is increasing representation of women and minorities on boards of directors. We track that data for each of our portfolio holdings and we are increasingly engaging with companies to add women and minorities to their boards. In particular, it can be challenging for smaller capitalization companies to evolve to a more professional and diverse board, but we are very encouraging of these companies to make progress in this area.

Another area of focus is looking at employee turnover. Higher employer turnover is representative of a culture and policies that tend to be unfriendly to its workforce. We look to see if companies adopt inclusive equal employment opportunity (EEO) policies and practices and disclose workforce composition statistics.

Focus Area: Governance

Anchor has been leading corporate governance reforms for decades, because we believe in transparency and accountability mechanisms lead to better governance and long term shareholder value. What we have focused our efforts on include requiring independent board chairs and annual elections of directors, increasing women and minorities on boards of directors; and promoting executive compensation accountability through shareholder approval of pay packages.

Company Engagement

Anchor has a long history of engaging with company's management and their boards of directors on governance issues, recognizing that companies that have effective and transparent leadership are more likely to have better ESG policies and practices and more successful operations. In several cases over the years, Anchor has identified companies that lack board diversity or even regular turnover of the board, which has led to stale thinking. In other cases, we have identified companies where the CEO compensation is egregious for the industry and market cap size or the compensation is not tied to longer performance targets. In all of these cases we have sent letters to the boards of directors outlining our issues, which has always resulted in a conversation and frequently action by the board to change policies. We continue to extend our engagement efforts to environmental and social areas like better reporting on carbon disclosure and Equal Employment Opportunity (EEO) disclosure.

Since Anchor tends to focus on small and mid cap companies, we have to work with them on a case by case basis. Many of these companies are just starting to focus on ESG issues, track them and provide adequate reporting and disclosure to the investor community. We believe that ESG disclosures can improve shareholder value and possibly increase access to capital.

Our goals for company engagement include:

- Address any issues we may have regarding controversies, board structure and compensation
- Encourage better ESG disclosure and transparency
- Discuss how other companies may be handling ESG disclosures
- Compare and contrast company ESG profile relative to peers
- Work on a timetable and framework for improvements

Spotlight on Proxy Voting

Proxy voting is the process by which shareholders vote on proposals submitted for consideration at a company's annual general meeting. Most proposals are submitted by management, and votes on management votes are binding. Additionally, a growing number of shareholder proposals are submitted each year for consideration at annual general meetings. These votes are non-binding, but the vote totals on these proposals do influence corporate behavior.

Voting company and shareholder proposals is a fiduciary responsibility having economic value. We take this responsibility seriously and vote in opposition of management when we consider it to be in the long term interests of our clients.

Our voting policy, which is in a separate document, focuses on resolutions that sustain or increase shareholder's value and rights. Most importantly, our approach integrates proxy voting and company engagement in an on-going manner.

Roles and Responsibilities & ESG Training

Our leadership team is committed to continuously improve our process and embrace the highest standards of ESG integration. We hold regular internal reviews to ensure we are adhering to the process.

The ESG Committee, comprised of Anchor's CIO, COO, Compliance Officer and ESG Portfolio Manager, oversees the proxy voting, ESG integration and engagement.

We at Anchor have collectively spent more than 400 hours in preparation for the French SRI Label, UN PRI and CDP filing.

We encourage our analysts to engage in educational and training opportunities in SRI (sustainable, responsible and impact investing) to stay current with new ESG integration practices and trends. Resources include on-line courses, ESG events, case studies, webinars, discussion papers, in-depth guidance documents, research, and practical tools. The ESG Committee requires investment committee members to demonstrate at least two training efforts in each year.