



Spinnaker Capital Group

Responsible Investment Policy

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I. Background

In recent years, investors have become increasingly aware of the impacts of their investments. As a result, several initiatives have been developed denoting the various ways in which asset managers can conduct their business in a more sustainable manner. The most important of these is the United Nations Principles for Responsible Investment (UNPRI), a set of best practices set out by the UN. Signatories to the principles must incorporate Environmental, Social and Governance (ESG) factors into their investment decision-making and ownership practices in order to augment financial returns, minimise risk and meet the expectations of their beneficiaries and clients.

What are ESG factors? There is no one answer. The UNPRI presents the following examples:

Environmental: Climate change; greenhouse gas emissions; resource depletion, including water; waste and pollution. For sovereigns, additional factors include biodiversity; and energy resources and management.

Social: Working conditions, including slavery and child labour; local communities, including indigenous communities; health and safety; employee relations and diversity. For sovereigns, additional factors include human rights; education and human capital; political freedoms; demographic change; employment levels; and food security.

Governance: Executive pay; bribery and corruption; board diversity and structure; tax strategy. For sovereigns, additional factors include institutional strength; regime stability; political rights and civil liberties; rule of law; regulatory effectiveness and quality; accounting standards; and government finances.

There are 3 key parts to Spinnaker Capital's RI approach:

- Be a UNPRI signatory
- Formalize and implement this RI policy
- Integrate ESG factors formally into the funds' risk and investment analysis process

II. United Nations Principles for Responsible Investment (UNPRI)

The UNPRI are a set of best practices set out by the UN for responsible investment. The PRI mission statement states: "We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole."

Spinnaker Capital is a UNPRI signatory, joining 2,400 others. We recognise the financial materiality of ESG issues for individual companies, countries, and the market as a whole, and accept that integrating these issues forms part of our fiduciary duty to our clients. It underlines our desire to see companies owned and managed in a way that more holistically addresses long term drivers of risk and return. In addition, the planet is at a critical juncture where many key global social, environmental and economic policies must be altered in order to control the effects of climate change. Many of the world's ecosystems are in decline, and social unrest as a result of poor governance is directly affecting businesses and nations across the globe. Being a UNPRI signatory is a small step in the right direction towards alleviating such problems.

UNPRI signatories make the following commitment:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors,

regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosures on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles

The UNPRI are explicitly “aspirational”. Spinnaker Capital aspires to full implementation of the UNPRI in a proportional manner that is appropriate to its business. As a signatory, we have made a commitment to complete the PRI Reporting Framework each year; and to implement the principles. For each principle, the UNPRI offers “a menu of possible actions”, presented below; from those menus, we currently choose to focus our efforts on the points in **bold type**:

1. Incorporate

- **Address ESG issues in investment policy statements**
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- **Encourage academic and other research on this theme**
- Advocate ESG training for investment professionals

2. Be active

- Develop and disclose an active ownership policy consistent with the Principles
- **Exercise voting rights or monitor compliance with voting policy (if outsourced)**
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- **Participate in collaborative engagement initiatives**
- Ask investment managers to undertake and report on ESG-related engagement

3. Seek disclosure

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- **Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)**
- Support shareholder initiatives and resolutions promoting ESG disclosure

4. Promote

- Include Principles-related requirements in requests for proposals (RFPs)

- **Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)**
- **Communicate ESG expectations to investment service providers**
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

5. Collaborate

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- **Collectively address relevant emerging issues**
- Develop or support appropriate collaborative initiatives

6. Report

- **Disclose how ESG issues are integrated within investment practices**
- **Disclose active ownership activities (voting, engagement, and/or policy dialogue)**
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a “Comply or Explain” approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

III. Guiding Principles of Spinnaker Capital RI Approach

Spinnaker Capital aims to channel legitimate financial investments to Emerging Markets in order to generate high returns by making it easier for people in those countries to achieve their economic potential. This principle is reflected in who we take money from, who we invest money with, what investments we make, and where we invest.

Spinnaker Capital strives to follow best market practices in all of its affairs while being sensitive to the context of its business.

Spinnaker Capital is a UNPRI signatory, and aspires to full implementation of the UNPRI in a proportional manner that is appropriate to its business.

Spinnaker Capital chiefly invests in EM countries. Challenges such as environmental degradation, corruption, sub-standard working conditions and poor business practices are particularly acute in those countries. These issues present risks not only to local communities and habitats in the Emerging Markets, but also to our funds’ investments. We believe that we can simultaneously address these threats and foster sustainable development through our own operations. We strive to promote sound governance, respect for the habitat, ethical practices, and compliance with local laws and regulations, all of which we group under the rubric of Responsible Investment (RI). We believe that the implementation of these practices will ultimately contribute to strong economies and benefit local communities. Consequently, business efficiency and performance will be improved, whereby our fundamental goal of attaining maximum returns for our clients will be achieved.

In fixed income investing, a key application for ESG information is to inform our analysis of issuer creditworthiness. Governance issues may affect a sovereign or corporate issuer’s willingness to repay its debt in the short-to-medium term. Social and environmental issues may evolve to present hurdles affecting an issuer’s ability to repay its debt in the medium-to-long term, signals which may be reflected in asset prices and liquidity in the short-to-medium term.

IV. Environmental Principles

Our internal approach

In our own offices we undertake many measures to protect the environment. We minimise inter-office air travel by employees by encouraging the use of video conference calling technology, in which we have invested substantially and continually upgrade. Company printers default to double-sided printing, paper is recycled, and employees are encouraged not to waste paper. The investment team in our Sao Paulo office receives all investment reports via iPads instead of hard copy documents. Plastic water bottles have been eliminated in favour of large coolers. Public transportation is widely used for commuting.

Our investment approach

Environmental impacts are taken into account in our investment process as part of a holistic view of limiting downside risks and seeking maximum returns.

Non-renewable natural resources are an important part of our business, as is the case for other EM asset managers, because those are key commodities produced by EM countries. It would not be financially viable at this time for us to divest from or avoid non-renewable natural resources completely, as it would significantly degrade our capability to uphold our first priority: delivering positive returns to our clients.

Spinnaker Capital seeks to invest in renewable energy sources whenever possible, and actively considers the environmental sustainability of the portfolio. We also strive to focus on best-in-class energy-sector firms that aim for a mix of non-renewable and renewable production. We note that climate awareness has reached a tipping point in society, which is driving major governmental and private decisionmaking on future energy sources (such as the UK's 2019 legislation requiring it to bring its greenhouse gas emissions to net zero by 2050), and anticipate that will in turn drive enormous growth in renewables and related industries, which will make related investments increasingly attractive. We aim to capture early opportunities to profit from that major trend.

In the coal sector, the firm will normally not finance new mines or new thermal coal plants. It will consider funding expansion of existing mines. It will fund improvements of existing plants to make them cleaner. It will consider secondary market investments in any companies in the sector.

Spinnaker Capital also has a sustainable policy for the forestry and plantation sector. We avoid knowingly financing companies engaged in illicit resource extraction from primary or high conservation value forests. We aim to work with companies that prioritise the implementation of sustainable forestry management practices. We prefer that our forestry-related portfolio investments are independently certified by the Forest Stewardship Council or an equivalent internationally recognised standard. We also prefer that adequate documentation is available to allow monitoring and certification by organisations to trace the origins of the timber. We also strive to ensure that a forestry management plan and a biodiversity action plan exists for all our timber-related investments.

V. Social Principles

Our internal approach

The firm encourages and subsidizes physical training at its in-house fitness room in London. We encourage healthy eating by providing semi-weekly fruit deliveries at the London office. We do not discourage the taking of earned vacations by employees. We offer flexible working arrangements,

which have been used by several employees to enable them to spend more time with their young children or elderly parents. We value the diversity of our employees. We are committed to equal opportunity and fair compensation in all aspects of employment without regard to gender, race, national origin, sexual orientation or religion. We train and promote people internally. We value viewpoint diversity, which we achieve by employing staff who are citizens of a wide number of countries around the world – 11 countries at current count.

Both the firm and its employees make significant contributions to society via charitable and volunteer activities. The firm has been an Underwriter since 2004 of EMpower, a philanthropy that raises its funds from firms that make money trading or investing in EM assets, whose mission is to support local organizations in EM countries that provide at-risk youth with the tools and resources they need to lead healthy, productive lives. The firm's employees make significant annual charitable contributions to a host of institutions in emerging and developed countries, in fields including education, the natural world, youth programs, health care, art, archaeology, and global development.

Our investment approach

We strive to ensure that the companies in which we invest meet local laws and regulations regarding social, environmental and governance matters. Where we deem the local laws to be insufficient, we may look to international best practice for guidance.

We avoid participating in investments that can cause undue hardship to citizens in EM countries.

We respect the protection of internationally proclaimed labour rights such as those declared by the International Labour Organisation, and work to support these principles. We recognise the importance of our investments' labour conditions corresponding to health and safety guidelines and being no less than required by local laws.

Investments can bring many positive benefits to EM countries. We invest in frontier markets that allow a deepening of EM financial intermediation, thereby rendering financial services accessible to people that have been excluded from them. We help develop local currency debt markets through our active participation in them. Another important part of our business has been secondary market investing in distressed debt, entering at price levels well below par, with the intent of exiting through a negotiated restructuring. This helps speed the re-entry of EM debtors into the primary financial markets, by providing an exit for investors who entered into performing bonds and are unable or unwilling to hold distressed debt; debtors can more easily negotiate restructuring terms with investors whose cost of investment is low – and who may well profit from a restructuring – than with a par investor facing large losses.

The main purpose of investing, of course, is to bring positive benefits to investors. Many of our firm's investors are charitable trusts, universities and other non-profit institutions, along with pension funds and other institutions entrusted with improving the lives of individuals. We are proud of the indirect positive effects our efforts have had on people around the world.

VI. Governance and Ethical Principles

Our internal approach

Spinnaker Capital considers its reputation for integrity as one of its most prized assets. Therefore we insist on honesty in all aspects of our business. We endeavour to avoid conflicts of interest, and to act both lawfully and ethically. Our internal counsel keep apprised of relevant laws and regulations in the relevant jurisdictions to ensure that we are able to maintain our high standard of moral conduct. We require that employees practice the highest moral standards in all of our business, including

interactions with other company employees, the general public, business associates and governmental authorities.

We encourage and finance further professional education, including Masters in Finance degrees and CFA certifications.

In accordance with our principle of maintaining superb ethical standards, we expect all of our employees to preserve the confidentiality of information entrusted to them by the firm, its clients and others involved in any business dealings. The firm's compliance manual includes detailed discussion on several ethical topics including personal conflicts of interest, anti-bribery procedures, general high standards of conduct, market conduct, openness and co-operation with regulatory authorities, and anti-money laundering policies.

Our investment approach

Governance issues have always been core to the Spinnaker Capital investing approach, long before the firm formalized its RI policy, because these issues directly affect short-to-medium term creditworthiness. National politics in EM countries is a topic of weekly discussion in the firm's global macro meetings, as the shape and policies of a national government can dramatically affect a country's ability or willingness to repay its creditors. The rule of law is important as it provides a framework for sovereigns and corporates to respect creditors' rights, and the firm has long avoided or minimized investments (apart from FX and related assets) in countries where the rule of law has proven weak. Corruption is important in companies and sovereigns, because crooks often don't repay their debts; it can also be a factor in sovereign credit strength, with fraud, tax avoidance, and financial mismanagement affecting an issuer's ability to repay. Strong correlations have also been found between corruption and the number of sovereign defaults.

Corruption is a particularly difficult issue in the Emerging Markets. Governance standards both in government and in private industry often fall well short of those in more developed political systems and economies. The Emerging Markets Disclosure Project emphasized that corruption, unsurprisingly, is rarely disclosed.

We have a "best in class" approach to corruption in our investments, viewed in relation to our own regions and to trends over time. Given our remit from our investors to focus primarily on EM investing, we cannot expect developed-country governance standards in all of our investments. However, when we see countries or companies whose governance standards are, in our view, significantly below broad EM standards, that is a key factor in our investment decision. We also avoid transactions which we are concerned may themselves directly aid or abet governmental or private corruption. Governmental commitment to the rule of law will affect our investment decision both for the sovereign and for companies in that country.

We try to avoid investments that take advantage of weak legal frameworks to harm or disadvantage people.

As part of our anti-corruption efforts, we actively pursue firms and individuals related to our funds' investments who default on their contracts, to regain money for our funds.

VII. Investment Process

We specifically incorporate ESG principles into our investment process. Our ESG chair is copied on investment proposals, and can raise the subject at any time; he does not have the power to veto investments, but can request that ESG principles be taken into active consideration in the decisionmaking process, and suggest areas of further focus.

Spinnaker Capital's investment approach for bottom-up investments comprises four stages:

1. Idea generation via:
 - Extensive networks and relationships with local investors, companies, and banks in EM countries
 - Global banks
 - Peer group fund managers
 - Fundamental research
2. Fundamental analysis and due diligence involving:
 - Pre-approval of initial thesis by Global Investment Committee (GIC)
 - Local diligence, with support from regional resources
 - Valuations via economically rigorous, model-based approaches
 - Investment memos updated to include diligence results
3. Approval and Construction demonstrated in:
 - Written investment proposal reviewed and approved by GIC
 - GIC approval required before capital allocation
4. Monitoring/exiting involving:
 - Local employees continually monitoring local investments and proposing exits
 - Exits are sometimes preordained, but otherwise require GIC approval

We integrate RI questions into stage 2 of our due diligence, to identify risks and implications for the funds' portfolios.

In top-down, macro investing, RI principles will be systematically integrated as one set of factors in investment analysis, to better manage risks and improve returns. That process is currently being shaped, and a description will be added to the next update of this policy.

VIII. Investment Screening

Our RI principles guide us to the following approach to choosing investment categories. (Screens do not apply to components of index investments.)

Category A. Legal principles.

1. We will not invest in a manner which would contravene UN or other applicable legal sanctions that are applicable to our investment management companies or our funds
2. We will not invest in private companies that are engaged in the production of, or trade in, products or activities deemed illegal under host country laws or regulations, or subject to bans under international conventions or agreements

Category B. We normally will not invest in private companies which, to our best knowledge, engage in any of the following practices:

1. Production or activities involving forced labour
2. Production or trade in weapons or munitions
3. Drift net fishing in marine environments using nets of excessive length
4. Significant alteration, damage or removal of critical cultural heritage
5. Forcible relocation of indigenous peoples from traditional lands

Category C. We use a “best in class” approach to investments in companies whose activities include any of the following:

1. Extraction or processing of fossil fuels
2. Production, use of or trade in legal yet environmentally-hazardous materials
3. Significant conversion or degradation of critical habitat

Industries implicated in Category C are often key contributors to EM nations’ GDP. We believe that these are important sources of wealth in which we should be able to invest, in order to maximise returns for our investors. Therefore, we believe a “best in class” approach is appropriate.

IX. Shorting

Spinnaker Capital utilises shorting as part of its investment policy. The firm’s investment remit is to maximise returns from its particular investment strategies and, in certain cases, we believe that returns can be maximised not by being long or neutral in a particular asset, but rather by being short in that asset. A short position may express our view that a particular asset is currently overpriced, or may be an action to protect investors by limiting the volatility of the investment portfolio. As a general principle, in line with a great many other responsible investment professionals, we believe that shorting is an important part of an efficient market: it sets the right price signals for the real economy. The firm does not short with the intention of manipulating markets, nor engage in illegal shorting practices such as “short and distort”. The firm also abides by applicable regulatory restrictions on holding and/or reporting short positions.

X. Disclosure

Spinnaker Capital operates a policy of liberal disclosure. All fund terms are disclosed in the funds’ offering documents. Investors receive monthly reports that detail the funds’ returns, sources of returns, exposures and top holdings. The firm produces detailed transparency reports directly via market-standard systems and indirectly via the funds’ administrator.

Regarding its portfolio investments, Spinnaker Capital is only able to disclose information that is available to collect. Disclosure can often be an issue in the Emerging Markets. EM countries often have less sophisticated, more unstable governments; consequently, legislation demanding full disclosure can often be lacking, making it difficult for an investor to fully comprehend the ESG facts of a company. Disclosure in EM countries can often be viewed as a “box ticking” exercise, so it may be difficult to ascertain the ESG principles of EM companies as it is not always clear that the information provided is entirely accurate. Finally, many EM countries foster a culture that discourages subordinates from challenging their superiors, or discourages citizens from challenging government policies or actions; this cultural resistance to whistleblowers means that companies instead take an official line, and the accuracy of facts can often be questionable.

The Emerging Markets Disclosure Project concluded in 2012 that “the next generation of leading companies will distinguish themselves through their commitment to sustainability, as demonstrated through robust sustainability reporting, and will be correspondingly rewarded by the market”. Spinnaker Capital looks to actively engage alongside fellow EM investment managers and we endeavour to promote disclosure across the board in EM countries.

XI. Engagement

Several factors moderate the intensity of, and diminish the potential impact of, Spinnaker Capital's direct engagement with issuers on RI matters. Disclosure and transparency is much less common in EM countries than in developed countries. The equity stakes our funds hold in companies are rarely material to the company. Many of our funds' investments are in sovereign rather than corporate assets, and engagement with sovereigns is practicable mainly on a market-wide level. Our funds' principal investments are not in equities but in fixed income and money markets – assets that do not carry votes.

We nevertheless regularly engage sovereign issuers, in meetings with central bank governors, finance ministers, and other officials. We share our experience, our insights, and our views on what actions they can take that would be received positively by market participants.

We aim to further engage issuers when possible, particularly in collaborative engagement initiatives with other EM market participants. We also plan to urge companies to promote climate change awareness as a governance priority and support other efforts, both on a national and local scale, to reduce greenhouse gas emissions.