

## **Cape Ann Asset Management Limited**

### **Stewardship Code Statement**

Cape Ann Asset Management Limited (“Cape Ann”) is authorised by the Financial Conduct Authority (“FCA”) and, pursuant to the FCA’s Conduct of Business Rules, is required to produce a statement of commitment to the UK Stewardship Code (“the Code”), or explain why it is inappropriate for our business model. This document describes how Cape Ann has applied the principles of the UK Stewardship Code (the “**Stewardship Code**”) in its role as a discretionary asset manager with respect to Client investments in publicly traded developing market equity securities. The statement also serves to provide information to unitholders in Cape Ann’s commingled funds, the companies in which we invest, and other market participants of Cape Ann’s approach to stewardship.

#### **Principle 1 - Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

Cape Ann has outlined the key characteristics it looks for in boards of portfolio companies, in its Proxy Voting Policy and Procedures as well as its Environment, Social and Governance Policy. Cape Ann actively monitors and, where appropriate, will engage in dialogue with portfolio companies. Cape Ann’s belief is that active ownership – in the form of rigorous and long-term oriented analysis of investment prospects and holdings, proactive exercise of shareholder rights, and constructive engagement – can improve discipline, accountability, and long-term returns.

#### *The Key Characteristics Cape Ann Looks for in a Board*

Cape Ann looks to ensure that the boards of portfolio companies possess the following characteristics:

- Boards must recognise that they owe a service to their shareholders and, as an objective, must ensure that the company earns an attractive return on the capital contributed by shareholders.
- Boards must exhibit a good understanding of their business risks and opportunities and ensure performance drivers and values are consistent with sound business practices.
- Boards must develop a sound business plan backed by good capital allocation and not a series of high priced acquisitions.
- Boards must maintain the sound capitalisation of their companies. Too much debt is discouraged and any debt should be funded long term. Boards must avoid diluting shareholder returns by retaining excess capital that cannot be invested at appropriate returns.
- Boards must ensure that their company recruitment and human resources policies are structured to maintain competent management at a reasonable cost to shareholders without high cost imports.

Companies in Cape Ann’s investment programme may not exhibit some or all of these characteristics. Cape Ann will, however, take them into account when voting proxies and engaging with management.

Cape Ann is a signatory to the UN Principles for Responsible Investment and has developed an Environmental, Social and Governance (“ESG”) Policy which describes the incorporation of ESG issues into our investment process. A copy of Cape Ann’s ESG Policy is available in the Appendix.

**Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

Cape Ann recognises the importance of identifying potential material conflicts and the need to have adequate systems and controls to avoid or mitigate their impact on the Clients. Cape Ann has developed a process for identifying various types of conflicts of interest and a policy for managing conflicts of interest associated with voting proxies and engaging with investee companies to include enhanced oversight by senior staff. Cape Ann has outlined additional procedures in its internal compliance procedures. Where conflicts of interest arise, Cape Ann endeavours to ensure clients continue to benefit equally from an opportunity or will look to remove the conflict from the equation.

**Principle 3 - Institutional investors should monitor their investee companies.**

Cape Ann believes that it is desirable for management and staff of a public company to be owners or shareholders in that company. It is desirable because employees can share in the long term prosperity that they work to create. Shareholders then find that their interests are as aligned as possible with the interests of those working in the company. There are different ways to achieve this objective. Cape Ann starts by drawing a simple, but very important, distinction between share ownership and share options. These are not synonymous. Cape Ann expects management remuneration to have a significant variable element – typically a bonus to reflect both individual merit and the success of the business. The more senior the management the more closely these criteria come together. Cape Ann also believes that some proportion of this bonus should be received in shares. The precise amount of bonus and the proportion that should be received in shares should be at the discretion of a remuneration committee that reviews available indicators of individual and business performance. Cape Ann sees a distinction between business performance and share price performance. Management have the opportunity to help deliver good business performance – attractive returns on capital and a good growth in earnings, dividends and asset value – but the share price may be an entirely different matter for extended periods of time. Cape Ann favours remuneration that is geared to business performance not stock market performance. By awarding shares in this way, the expense becomes part of the overall remuneration cost and is properly and transparently charged.

Cape Ann supports as broad a level of share ownership as possible within a given portfolio company and does not favour schemes that are narrowly focussed. What is being sought is a system which helps to create a better ethos across the whole company. This can only be achieved by broad application. The essence must be to reward employees who think in terms of the long term interest of the business. Schemes should be put in place for the long term, not as a short term matter. The main beneficiary becomes an employee who makes a sustained commitment to the company.

- Cape Ann monitors the companies in which we invest and, where appropriate, will communicate our views to their management and their boards. This dialogue allows Cape Ann to monitor the development of companies' businesses, including areas such as overall strategy, business planning and delivery of objectives, capital structure, proposed acquisitions or disposals, corporate responsibility and corporate governance.
- Cape Ann seeks to satisfy itself, to the extent reasonably practicable, that the investee company's board and committee structures are effective, and that independent directors provide adequate oversight. Our monitoring of investee company boards, strategy, operational, governance, performance and capital allocation is integral to its investment process;

- Cape Ann monitors the effectiveness of its engagement with the managements and boards of investee companies. Cape Ann’s communications, and the success of any such communications, will play a part in our proxy voting decisions;
- Cape Ann votes the vast majority of shares it controls by proxy. Cape Ann will, in exceptional circumstances, attend meetings for companies in which there are large holdings, where a problematic issue is being discussed and/or if Cape Ann believes that this is reasonably necessary to fulfil its fiduciary responsibilities to the Clients. Cape Ann will introduce AGM and/or EGM motions where it believes it is in the best interest of the Clients to do so;
- In the unlikely event that Cape Ann is made an insider, Cape Ann follows its internal compliance procedures governing market abuse and insider dealing; and,
- In accordance with applicable law and its internal document retention policies, Cape Ann keeps electronic records of material engagements, voting and other corporate governance and corporate responsibility activities, including the rationale for voting decisions.

**Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

Cape Ann prefers to have confidential and private discussions with companies as we believe that this enables Cape Ann to build an effective relationship with boards and management. Cape Ann will consider engaging in more public communications and/or proxy activities. This may include voting against the management or board of an investee company or a given motion, issuing a press release documenting its opposition to a given issue, recommending to other shareholders that they take a specific action, introducing AGM and/or EGM motions and/or attending meetings in person.

**Principle 5 - Institutional investors should be willing to act collectively with other investors, where appropriate.**

Subject to regulatory restrictions, conflicts of interest and acting in concert restrictions, and where it is in the best interests of the Clients to do so, Cape Ann will participate in collaborative engagement activities. These are considered on a case by case basis and addressed in the context of economic environment and other business issues. Cape Ann looks to avoid situations where it will become an insider unless there is a clear economic benefit to the Clients from doing so.

**Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.**

Cape Ann ordinarily likes to support the management and boards of the companies in which we invest. However, we consider every motion individually and if we consider it is not in the best interests of our clients, we may consider voting against or abstaining. We are informed by internal research and also by voting guidance produced by the external firm ISS. In accordance with our proxy voting policy, a copy of which is available in the Appendix of this statement, we seek to vote all shares held. An overview of how Cape Ann applied its proxy voting and corporate governance policies during 2019 is set out below:

During 2019 Cape Ann voted on 1004 motions at 100 company meetings. Cape Ann voted against approximately 13% of those motions which included, amongst other items, voting against:

- unsustainable directors’ remuneration packages;
- provisions which might disadvantage minority shareholders; and

- proposed amendments to a company's articles of association which might seek to reduce diversity on the company's board.

**Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.**

Unitholders may receive a quarterly summary of proxies voted or not voted by contacting Cape Ann's Client Services representatives and asking to be included on the quarterly proxy voting distribution list. Cape Ann does not provide other third parties with information on how it has voted proxies. Cape Ann does not subject its proxy voting systems and/or procedures to review by its auditors or any independent third parties due. Cape Ann believes this to be unnecessary given the simplicity of Cape Ann's business structure and the sophistication of its institutional client base.

## **Appendix I**

### **Proxy Voting Policy and Procedures**

Cape Ann considers it to be of paramount importance when assessing proxy voting responsibilities on behalf of its privately offered commingled funds and separately managed accounts (the “Clients”) to recognise the fiduciary responsibility it assumes in acting as investment manager. Cape Ann also recognises the need to exercise its proxy voting obligations with a view to enhancing long term investment values. Cape Ann believes that both are generally compatible with good corporate governance as they provide the best operating environment for each underlying portfolio company to cope with competitive commercial pressures. It is Cape Ann’s policy, subject to the considerations described below, to use its best efforts to vote proxies arising on all shares held on behalf of the Clients.

Standard issues typically arise at Annual General Meetings (“AGMs”) or Ordinary General Meetings (“OGMs”). Standard issues may include items of a routine nature such as the presentation of financial statements to shareholders, approval of routine executive compensation or incentive plans, approval of financial statements by shareholders, election of directors and approval of director’s fees, election of auditors and approval of audit fees and declaration of dividends. Material issues may arise at Extraordinary General Meetings (“EGMs”), Special General Meetings (“SGMs”), OGMs or AGMs. Material issues may include items that relate to corporate governance matters; changes in a company’s country of incorporation; mergers and other corporate restructurings; anti-takeover provisions such as staggered boards, poison pills, or supermajority provisions; changes to capital structures including increases and decreases of capital and preferred stock issuance; material stock option, management compensation, or incentive plan issues; and social and corporate responsibility considerations. Cape Ann also considers standard issues to be material issues when it has knowledge that a potential conflict of interest with management is present. These situations can arise where a portfolio company’s U.S. retirement plan assets are otherwise managed by Cape Ann, a portfolio company or one of its affiliated entities is also a counterparty to Cape Ann’s security or foreign exchange transactions or where the person responsible for overseeing investments at the Unitholder invested in a Client is also a director or officer of a portfolio company that would materially benefit from any executive compensation or incentive scheme subject to shareholder vote. Cape Ann may not be aware of the roles performed for current and/or potential portfolio companies by Unitholders. Unitholders should notify Cape Ann of any known affiliations with publicly traded companies that could fall within Cape Ann’s investment universe. Unitholders should also notify Cape Ann if they are actively involved in the financial services industry or affiliated or employed by an investment bank, broker, custodian or asset management firm.

The Northern Trust Company (“Northern Trust”) holds all securities for the benefit of the Unitholders in Cape Ann’s various commingled funds. Cape Ann has directed Northern Trust to outsource certain of its proxy processing responsibilities to ISS, a leading provider of proxy voting. ISS provides Cape Ann with meeting notification and ballot delivery services, agenda summaries, detailed agenda content including original source documents, translation services, power of attorney maintenance, recordkeeping and custom reports and vote instruction processing services. Meeting notifications are provided according to an established service level agreement in place between Cape Ann and ISS and one in place between the Northern Trust and Cape Ann. Cape Ann does not outsource any part of its proxy voting decision making process to ISS or Northern Trust. Separate arrangements may be in place for the custodians appointed by any permanent separately managed account relationships.

Following receipt of proxy voting materials from ISS, Cape Ann's administration group prepares a "Proxy Voting Summary Form". The form includes the details of the number of shares held by a Client and a deadline for the response. If only standard issues are included on the proxy, one authorised person will decide on how to vote the proxy and sign the proxy voting summary form. If material issues are included, enhanced procedures apply. The issue will be discussed with two or more authorised personnel and they will assess the potential impact that the issues may have on the portfolio company, and decide on how to vote the proxy in question. The proxy voting summary form will then be approved and the proxy vote processed.

In certain circumstances, Cape Ann may be unable to vote a specific proxy including, but not limited to, when Northern Trust or ISS does not provide a voting service in a given market, because Northern Trust or ISS in error does not process a proxy or provide sufficient notice of a vote or because an error is committed by any party involved in the proxy voting or registration process. Cape Ann may also refrain from voting if, for example, it is considering liquidating a position (as shares may be blocked when proxies are submitted), where the costs of voting a specific proxy outweigh the economic benefit that Cape Ann believes would be derived by a Client, where a specific class of shares or equity instrument does not carry voting rights with respect to a given issue subject to shareholder vote, or where re-registration of the shares into the Client's name (rather than Northern Trust's nominee's) name may (or may reasonably be expected to) result in a violation of local privacy laws or adversely impact the Client's economic interests.

Unitholders are advised that when voting proxies in certain markets, Cape Ann may be constrained by certain country or portfolio company specific issues. For example, some companies in the portfolio impose voting caps on the maximum number of proxy votes that any single outside shareholder may control. Others require all board issues to be resolved by a show of hands, rather than a poll. As all shares may be held by one nominee, these restrictions have the effect of substantially limiting the impact of any proxies cast. Furthermore, some companies in the portfolio may restrict Cape Ann from voting proxies where disclosures of holdings or securities under Cape Ann's control have not been made on a timely basis or in a format required under their articles of incorporation.

## **Appendix II**

### **ESG Policy**

#### **Introduction**

Cape Ann is a long only, value investor in developing market equities. Cape Ann's investment team employs a bottom-up fundamental approach to stock picking using an assessment of intrinsic value. Cape Ann defines value as the discount of a security price to the underlying economic value of the business. The objective is to maximise the intrinsic value of the portfolio over time through a disciplined investment process. Investment managers identify inexpensive stocks through the screening process and then conduct fundamental research to assess the quality of the underlying company. The investment team generally seeks to avoid companies with danger of severe capital loss due to excessive leverage or poor corporate governance. Cape Ann considers responsible investment and environmental, social and governance ("ESG") related issues to be an integral part of its broader qualitative research process and its investment team has developed this ESG Policy to outline its approach.

As investors, Cape Ann looks to take a long term view and seeks to take advantage of volatility and mispricing that may arise through uncertainty or recent events and how investors may extrapolate its impact on security prices. The team is continually assessing the best use of capital and engages in a consistent buy and sell discipline. Cape Ann's investors seek to sell stocks in the portfolio that have crystallised value and rotate the proceeds into more attractively valued stocks that are qualitatively acceptable. Ordinarily, name turnover will be in the 20-30% range per annum and portfolio turnover in the 30-40% range per annum.

Cape Ann looks to add investments to the programme when they will help to maximise the earnings, assets and dividends of our investment programme. Investments may be funded from the cash flow of the existing portfolio or by the sale of investments which have come to offer less value. This approach is generally evolutionary rather than revolutionary. Cape Ann ordinarily maintains client cash balances at low levels in line with the Programme's investment guidelines. Typically, 40 - 80 investments will be owned in the programme with a reasonable diversification by country, industry and sector. Cape Ann analyse currency fundamentals and may periodically undertake forward currency hedging transactions, although such activity is limited to 20% of the value of the portfolio and is not intended as a major part of the overall investment management programme. Cape Ann has no bias in terms of market capitalisation and seek opportunities in small, mid and large cap companies. In assessing risk, Cape Ann does not refer to stock market volatility. Rather, Cape Ann sees risk as the possibility of paying a price above the intrinsic value of a business, thereby suffering a permanent loss of capital.

Cape Ann principally invests client assets in publicly traded equity securities and will seek to avoid subjecting clients to excess counterparty, liquidity or misalignment risk. Cape Ann does not short stocks, utilise derivatives or margin, underwrite securities, issue or write options, futures, warrants or over-the-counter ("OTC") instruments, with the exception of the potential investment in a very limited number of Market Access Products ("MAPs") designed to provide access to local markets Cape Ann cannot access directly. Cape Ann does not participate in securities lending programmes. Cape Ann does not invest in fixed income instruments, physical real estate,

commodities or contracts for difference. Assets included in client portfolios are normally priced by independent fund administrators using closing market prices and exchange rates. Cape Ann does not charge performance fees. It is therefore reasonable to state that Cape Ann does not trade in unusual or high risk products and has designed its systems and controls with this in mind.

Cape Ann recognises that this policy, and the methods employed to integrate ESG factors into the investment process, will evolve. Cape Ann’s status as a signatory to the UN’s Principles for Responsible Investment (“UN PRI”) provides support and guidance to assess and develop Cape Ann’s ESG framework and enhances Cape Ann’s ability to engage effectively with companies on ESG issues. Consequently, this policy will be reviewed periodically by Cape Ann’s investment managers and operations staff.

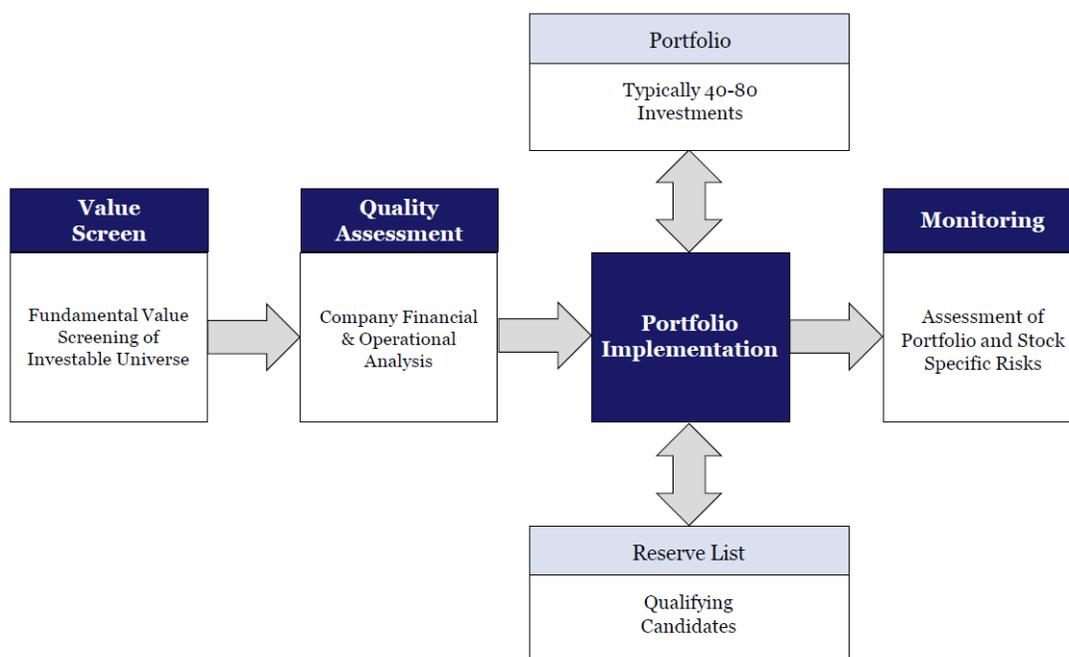
### Research and ESG Tools

Cape Ann’s investment process consists of a four stage iterative approach. The first two stages comprise the research process including idea generation through value screens and fundamental analysis. The last two stages encompass portfolio implementation and monitoring. The incorporation of ESG issues into the wider investment process typically takes place at the *Quality Assessment* stage and then subsequent engagement with portfolio companies, including proxy voting, forms part of *Monitoring*.

### Process Flowchart of Research and Implementation

#### INVESTMENT PROCESS

##### Overview of Research & Implementation Process



Cape Ann's proprietary research reports include a qualitative assessment of the company. ESG issues identified during the research phase are incorporated at this stage into Cape Ann's broader investment analysis and decision making process. Cape Ann's internal investment research reports address ESG issues under the 'Able and Honest Management', 'Managed in the Interest of Minorities' and 'Red Flags' sections. In examining governance issues, Cape Ann investors pay particular attention to cash versus accrual accounting disparities and capital stewardship. A checklist has been developed to identify potential misallocation or misappropriation of capital.

Cape Ann's investment research process seeks to utilise a number of 3rd party services to assist in the identification and monitoring of ESG specific issues, which will ordinarily be used within the research reports ordinarily written on each company prior to investment. Cape Ann currently subscribes to two services from MSCI which include their ESG Research service and Accounting and Governance Risk ("AGR") service. The former assists in flagging issues across the three main ESG pillars and their sub-components which help Cape Ann's assessment of issues by industry and company, along with measuring risk exposures. The AGR service assists in monitoring governance and accounting factors affecting the performance of public companies. Cape Ann also subscribes to Visual Compliance's Office of Foreign Assets Control ("OFAC") sanction screening tool to highlight U.S. Department of the Treasury's trade sanction issues for companies within our portfolio.

### **ESG Considerations**

While Cape Ann's investment decisions are based primarily on business and financial considerations, we also take into account governance, environmental and social factors if these issues are likely to have a material impact on a company's present or future financial position and cash flows, or conflict with Cape Ann's ability to manage investments. This enables Cape Ann to consider appropriate risks, make a balanced judgment on the investment opportunity, and act in the best interest of its clients. Cape Ann does not take an exclusionary approach when applying ESG factors and will not ordinarily rule any investment based solely on ESG criteria.

A prime concern within our investment process is the sustainability of free cash flow generation that can come from any portfolio company. Business models that depend on unsustainable practices are likely to fall outside our quality criteria for investment consideration. As a result, Cape Ann would see businesses that use enforced labour, child labour, uneconomic wage rates and/or unsafe or harmful business practices (such as polluting or harming the environment) will be unlikely to compound returns or may suffer from permanent loss of capital. Companies engaging in unsustainable practices normally make unlikely investment candidates. Cape Ann views the issue of companies operating in industries or countries that may have poor environmental or social safeguards as being another uncertainty with which our investee companies have to cope with, but this will not rule out investment, particularly if the company in question acknowledges these issues and has a structure and plan in place to resolve them.

As an investment manager, Cape Ann wants to be aware of how and where our investee companies operate. However, Cape Ann recognises that ultimately the decision to operate legally, either directly or indirectly, in an unpopular jurisdiction or industry, to deal with difficult political environments or unfriendly regimes in different regions around the world, the implementation of

a business plan, and the reputation risk involved, lies with the management of a company. These are important issues, but important alongside many others – product positioning, financing, sustainability of cash flows, competitive threats, advertising, promotion, human resources, corporate governance, and more. These are all the responsibility of management, although they remain of keenest interest to Cape Ann as an investment manager, for instance where the approach taken by a portfolio company conflicts with global best practice we may seek to work with company management to encourage improvement or vote against certain proposals at company meetings. In summary, the possibility that a portfolio company may legally operate in a given industry, country or region alone does not cause a change in our investment process.

Cape Ann expects that appropriate legal, governmental and other authorities around the world will take responsibility for addressing political, environmental and social matters fairly and wisely on behalf of their citizens. Accordingly, Cape Ann adheres to the laws of the countries in which we do business and follows rules and regulations applied by official agencies in those countries. Cape Ann also expects that the companies in which Cape Ann invests will do the same and Cape Ann closely monitors their record in this respect.

### **Engagement and Active Ownership**

Cape Ann recognises that an important element of ESG integration is the extent to which Cape Ann engages with portfolio companies on relevant issues.

Where practicable, Cape Ann will engage with its portfolio companies to encourage improvement of their ESG practices in cases where it identifies issues with regards to sustainability of the business model. Cape Ann's investment managers also ordinarily seek to meet the management of all portfolio companies and may discuss ESG points of concern, among other issues, during these meetings. Cape Ann may also, from time to time, participate in the UN PRI collaboration platform with other investors raising similar concerns on ESG issues with regards to specific sectors and countries.

Cape Ann uses its best efforts to vote proxies arising on all shares held on behalf of our funds. We exercise our proxy voting obligations with a view to enhancing long term investment values. We believe that both are generally compatible with good corporate governance as they provide the best operating environment for each underlying portfolio company to cope with competitive commercial pressures. A detailed note on Cape Ann's proxy voting policy is available on request.

### **Specific Investor Concerns**

Cape Ann understands that many institutional investors maintain a list of securities of restricted companies operating in certain industries or economic sectors from which they would like their investment managers to divest. Cape Ann's policy is to respond to any inquiries that Cape Ann receives on environmental, social or other governance matters. Cape Ann has not agreed to any client specific investment restrictions when it comes to ESG matters. Cape Ann does not accept client direction on proxy voting or corporate governance issues. Cape Ann's investment team has observed at prior firms that certain clients can feel passionately about a specific issue while others feel passionately about different issues altogether. Cape Ann recognises that there are many

political, environmental or social issues about which clients feel strongly, but Cape Ann is obliged to act in the overall interests of all clients.

### **UN Principles for Responsible Investment and Reporting**

Cape Ann's status as a signatory to the UN PRI, and the accompanying self-reporting mechanism of the PRI programme, complements our long term fiduciary responsibilities. Becoming a signatory also allows for continued alignment with the broader objectives of both society and our client base.

If you have any questions about Cape Ann's ESG Policy or status as a UN PRI signatory please contact John Lynch at +1 857 288 1500 or [clientservice@capeannam.com](mailto:clientservice@capeannam.com).