

## UK Stewardship Code Statement

Asset managers that are authorized by the Financial Conduct Authority (the “FCA”) are required under the FCA’s Conduct of Business Rules to produce a statement of commitment to the UK Stewardship Code (“the Code”) or explain why it is not appropriate to their business model. This document describes how Velanne Asset Management Limited (“Velanne”) applies the seven principles of the Code in its role as a discretionary asset manager of publicly traded equities. This statement is also intended to inform Velanne’s clients, including the unitholders in its various commingled funds, the companies in which we invest and other market participants of Velanne’s philosophy and practices regarding stewardship.

The concept of stewardship concerns a person looking after someone else’s property. Velanne expects the management and boards of the companies in its investment program to be good stewards of their businesses. Velanne expects them to maximize the long term prosperity of the company and shareholders by applying capital in the most effective manner. Successful companies benefit the wider economies of the countries where they operate.

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

At Velanne, engagement with portfolio companies is the responsibility of the investment team.. Through constructive dialogue with boards and managers of portfolio companies, Velanne looks to protect and enhance its Clients’ capital. We encourage our portfolio companies to aspire to the following principles:

- A sound balance sheet considering the cash flow characteristics of a portfolio company’s business and its operating environment. Neither excessive financial leverage nor excessive net cash and investments will be supported.
- Good capital allocation. Capital should be invested only when a decent Return on Equity (“ROE”) is achievable.
- Share issuance risks existing shareholders owning a smaller proportion of the business. Share issuance should be modest in scale and offer pre-emption rights to existing shareholders.
- Executive remuneration schemes should be simple, transparent and modest. Schemes should promote an “owner manager” culture.
- The Board of Directors of a portfolio company should act in the interests of the company. A Board should include independent directors. Directors who are over-committed to other activities will be unable to fulfil their responsibilities.
- Velanne prefers voting rights that are directly linked to the economic interests of shareholders. We will not normally support poison pills or any mechanisms that prevent shareholders from voting on significant transactions.

Velanne’s Environmental, Social and Governance Policy is included 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.**

Conflicts of interest may arise between Velanne and/or its working partners and a Client or between one Client and another Client. Velanne recognizes the importance of managing potential conflicts of interest and the need to avoid or mitigate their effect on Clients. Velanne has a process for identifying conflicts of interest and a policy for managing conflicts of interest. Both are outlined in its internal compliance procedures. Velanne has sought to align the interests of its working partners with the interests of Clients. Where a conflict of interest arises between Clients, Velanne endeavors to ensure that all Clients benefit equally from an opportunity.

This policy meets the requirements of an ‘engagement policy’ under the amended EU Shareholders’ Rights Directive (SRDII). This document will be reviewed when the outcome of the UK Financial Reporting Council’s consultation on revisions to the Stewardship Code is known.

### **Principle 3 – Institutional investors should monitor their investee companies.**

Velanne monitors its portfolio companies to assess the quality of each business. In addition, Velanne identifies strategic, operational, governance and financial issues that may be a concern. Velanne's monitoring assesses a company's stewardship, including whether the board and committees conform to local governance standards. This information informs investment decisions and forms the basis for dialogue with management and boards.

Velanne monitors its portfolio companies through, amongst other things, one-to-one meetings with management and boards, by reviewing the annual report and other information published by the company, by monitoring news flow and through third party research.

Velanne votes the vast majority of shares it controls by proxy. Velanne will consider, in exceptional circumstances, attending meetings for companies where a problematic issue is being discussed and/or if Velanne believes that this is reasonably necessary to fulfil its fiduciary responsibilities to Clients. Velanne will consider introducing AGM and/or EGM motions where it believes it is in the best interest of Clients to do so.

Portfolio companies may wish to make Velanne an insider when a significant event is pending. Being an insider prevents Velanne from trading in the shares of the company, affecting the normal activities of Velanne's investment programme. Velanne looks to avoid becoming an insider unless there is a clear economic benefit to the Clients from doing so. Inside information should be communicated with Velanne only with prior agreement.

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

Velanne prefers confidential discussions with its portfolio companies as these can help build an effective relationship with boards and management. Velanne will consider engaging in more public communications and/or proxy activities when faced with a scenario that could be detrimental to our Clients' interests. This may include voting against the management or board of a portfolio company on a given motion, issuing a press release documenting our opposition on a given issue and recommending to other shareholders that they take specific action, introducing AGM 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 constraints, conflicts of interest and acting in concert restrictions, Velanne may communicate with other shareholders regarding a specific proposal. Velanne will collaborate with other shareholders in engagement activities when it is in the best interests of Clients. These are considered on a case by case basis.

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

Velanne likes to be able to support the management and boards of the companies in which we invest. Each motion is considered individually. If a motion is not in the best interests of our Clients, Velanne may vote against or abstain. Voting decisions are guided by the six points laid out in Principle 1 and other relevant matters. Voting is informed by internal research and by voting guidance produced by external firms. Velanne seeks to vote all shares held wherever possible. A summary of Velanne's Proxy Voting Policy and Procedures are in the Appendix.

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

Unitholders in Velanne’s commingled funds and/or separate account clients may receive a quarterly summary of proxies voted or not voted by asking to be included on the quarterly proxy voting distribution list. Velanne does not provide third parties with information on how it has voted. Velanne does not subject its proxy voting system to external review. We believe this would be unnecessary given the simplicity of Velanne’s business structure.

**Appendices**

- Environmental, Social and Governance Policy
- Proxy Voting Policy and Procedures

## Proxy Voting Policy and Procedures

Velanne Asset Management Limited (“Velanne”) considers it to be of paramount importance when assessing proxy voting responsibilities on behalf of its privately offered commingled funds (the “Clients”) to recognize the fiduciary responsibility it assumes in acting as investment manager. Velanne also recognizes the need to exercise its proxy voting obligations with a view to enhancing long term investment values. Velanne 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 Velanne’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. Proxy voting policies and procedures for separate account clients will be set out in the investment management agreements for each separate account client.

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 directors’ 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. Velanne 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 Velanne, a portfolio company or one of its affiliated entities is also a brokerage counterparty to Velanne’s security or foreign currency transactions or where the person responsible for overseeing investments at a Unitholder that is 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. Velanne may not be aware of the roles performed for current and/or potential portfolio companies by Unitholders. Unitholders should notify Velanne in writing of any known affiliations with publicly traded companies that could fall within Velanne’s investment universe. Unitholders should also notify Velanne in writing 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 Client securities, cash and other assets for the benefit of the Unitholders. Velanne has outsourced certain of its proxy voting administration responsibilities to Institutional Shareholder Services (“ISS”), a leading provider of proxy voting services. ISS provides Velanne 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 Velanne and ISS. Velanne does not outsource any part of its proxy voting decision making process to ISS or Northern Trust.

Following receipt of proxy voting materials from ISS, Velanne’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 authorized 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 authorized 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, Velanne may be unable to vote a specific proxy including (but not limited to) when ISS does not provide a voting service in a given market, because 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. Velanne 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 Velanne 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, Velanne 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 Velanne from voting proxies where disclosures of holdings or securities under Velanne's control have not been made on a timely basis or in a format required under their articles of incorporation.

Unitholders may receive a quarterly summary of proxies voted or not voted and issues raised at meetings held by portfolio companies by contacting [clientservice@velanneam.com](mailto:clientservice@velanneam.com) and asking to be included on the quarterly proxy voting distribution list.

## **Environmental, Social and Governance Policy (“ESG”)**

ESG issues form part of Velanne Asset Management Limited’s (“Velanne’s”) investment process. However, they are not technically a documented consideration. Velanne’s investment decisions are based primarily on business and financial considerations. Velanne takes into account political, environmental and social issues if these are likely to have a material impact on a company’s present or future financial position or cash flows or to conflict with Velanne’s ability to manage and develop investments. This approach enables Velanne to take into consideration appropriate risks, to make a balanced judgment on the investment opportunity and act in the best interest of its Clients. Velanne recognizes that there are many political, environmental or social issues about which Unitholders feel strongly but Velanne is obliged to act in the overall interests of all Clients. Unitholders may not share the same view or may hold opposing views.

At Velanne, a prime concern is the repeat free cash flows that can come from any portfolio investment. Investments that depend on unsustainable businesses practices are likely to fall outside of our quality criteria. As a result, Velanne’s view would be that businesses which used enforced labor, child labor, uneconomic wage rates, and/or unsafe or harmful business practices (such as polluting or harming the environment), for example, are not sustainable in perpetuity, suffering from falling rates of returns, leading to decreased normalized earnings. These types of companies make unlikely investment candidates. Velanne views the issue of companies operating in industries or countries that may have poor environmental or social safeguards as being another uncertainty with which its investee companies have to cope with. As an investment manager, Velanne wants to be aware of how and where its investee companies operate. However, Velanne recognizes 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 and promotion, human resources, corporate governance and so on. In the end, these are all the responsibility of management, although they remain of keenest interest to Velanne as portfolio managers. In summary, the possibility that a portfolio company may legally operate in a given industry, country or region does not cause a change in our investment process. Velanne 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, Velanne adheres to the laws of the countries in which it conducts business and follows rules and regulations applied by official agencies in those countries. Velanne also expects that the companies in which it invests will do the same – and Velanne pays close regard to their record in this respect.

Velanne has not agreed to become a signatory to the UN PRI or similar initiatives. This does not mean that Velanne disagrees with such principles – when last reviewed, the UN PRI and related CFA Society standards (amongst others) appeared sensible. However, Velanne looks to avoid signing up to voluntary initiatives as doing so increases the amount of internal monitoring and administration that must be completed by the firm. This could then serve to distract – rather than enhance – investment returns. Velanne is also concerned about the risks of adopting policies that have been put in place by unelected bodies or governmental officials that do not have the ultimate responsibility for overseeing them.

Velanne has not agreed to any client specific investment restrictions when it comes to ESG matters. It does not accept client direction on proxy voting or corporate governance issues. There will be circumstances where clients will feel passionately about a given issue (e.g., investment in alcohol securities, issues involving life issue (e.g., abortion, stem cell research), nuclear power and disarmament, military funding). Velanne will carefully consider the particular client’s views on the matter but must ultimately consider the best interests of all clients when making investment decisions.