

**Velanne Asset Management Limited**  
**FCA Ref: 800409**  
**Stewardship Code Statement**

Investment managers that are authorised by the Financial Conduct Authority (the “**FCA**”) are required under the FCA’s Conduct of Business Rules (commonly referred to as “**COBS**”) to produce a statement of commitment to the Financial Reporting Council’s Stewardship Code (the “**Stewardship Code**”) or explain why it is not appropriate to their business model. This document describes how Velanne Asset Management Limited (“**Velanne**”) applies the 12 principles of the Stewardship Code in its role as a discretionary asset manager of publicly traded equities. This statement is also intended to inform the unitholders in Velanne’s commingled funds, Velanne’s separate account clients, portfolio companies and other market participants of Velanne’s philosophy and practices regarding stewardship.

Velanne looks to ensure portfolio companies are run in the best interests of its commingled funds and separate account clients (collectively referred to as “**Clients**”). To achieve this, Velanne actively monitors how its Clients’ portfolio companies operate. Velanne expects the management teams and boards of portfolio companies to be good stewards of their businesses. Further, Velanne expects them to maximise the long-term prosperity of their companies and their companies’ shareholders by applying capital in the most effective manner.

**Principle 1 – Signatories’ purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.**

**Ownership and Structure**

Velanne is a boutique investment manager. The firm has 11 members of staff, with a five-member Investment Team. The firm is majority owned by staff members active in the business and all members of permanent staff hold shares in the firm.

Velanne’s Board of Directors is ultimately responsible for the firm’s governance.

**Purpose**

Since its inception in 2017, Velanne has offered a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. Velanne’s investment objective is to achieve long-term growth primarily by investing in a diversified portfolio of equity securities of companies located in developed markets.

**Business Model, Values and Strategy**

Velanne’s business model is simple and straightforward. The firm has remained focused on a single asset class and investment strategy since inception. It looks to maintain a small number of staff, with the non-investment staff in place to ensure that distractions are kept to a minimum and the Investment Team can remain focussed on investment research and portfolio. All permanent staff that have passed the probationary period have equity in the business. This aligns Velanne’s long-term interests with those of our Clients.

**Culture**

Velanne’s culture is a critical part of our firm. Velanne’s committed team are passionate about value investing. As the business is majority owned by its staff, everyone has a key role to play in Velanne’s long term success.

### **Investment Beliefs**

Velanne employs a bottom-up, value-driven, contrarian investment philosophy, looking to identify companies that are trading at a significant discount to their intrinsic value. In many cases, this may include companies experiencing challenging trading conditions or some form of disruption in their business or primary markets. Its analysts are unconstrained and opportunistic in their search for portfolio ideas and conduct intensive fundamental analysis on targets that meet their investment criteria.

Velanne seeks to uncover idiosyncratic opportunities that present risk/reward profiles where upside potential is believed to significantly outweigh downside risk. Velanne's focus is to deliver over the long-term superior returns on a risk-adjusted basis.

### **Activity**

Velanne ensures that its business model, values, strategy, culture and investment beliefs enable effective stewardship through its investment process and governance structures.

*Investment Process:* The discharge of Velanne's stewardship obligations is primarily the responsibility of its Investment Team, supported by other areas of the firm. Through the firm's investment process, which involves fundamental, qualitative research into companies identified through the screening process, Velanne looks to protect and grow its Clients' capital. Velanne takes environmental, social and governance concerns, especially those related to corporate governance, into account as part of the firm's investment process.

*Engagement:* 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.

*Proxy Voting:* Velanne's Investment Team is responsible for voting Clients' portfolio company shares. Velanne's proxy voting process involves reviewing a company's meeting materials and Velanne's own investment research. The advantage of this approach is that Velanne's proxy votes are cast in a manner consistent with Velanne's investment perspectives.

### **Outcome**

Stewardship is a significant component of the firm's investment process and culture.

Recently, the firm increased its focus on the consideration of material environmental, social and governance factors in its investment process, by initiating a trial of a leading global provider of ESG and corporate governance research and ratings.

Please contact John Reynolds ([jreynolds@velanneam.com](mailto:jreynolds@velanneam.com)), Velanne's Head of Marketing, if you require more information on Velanne's investment programme.

### **Principle 2 – Signatories' governance, resources and incentives support stewardship.**

#### **Governance**

Velanne's Investment Team are responsible for Velanne's stewardship efforts and ultimately report into the Board of Directors.

## **External Resources**

Velanne uses the external resources listed below to support its investment process, as well as to integrate aspects of sustainability:

<b>Company Research and Reports</b>	<b>Specialist ESG Research</b>	<b>Sell-side Research</b>	<b>Other</b>
Annual Reports	ISS Governance and Proxy Voting	Industry Level Themes	Trade Bodies
Non-financial Disclosure	Sustainalytics Risk Ratings and Controversies*	ESG Specific	Press Reports
Company Meetings		Materiality Matrices	Credit Rating Agency Commentary

\* Currently in trial period. Sustainalytics, a Morningstar company and a globally-recognized provider of ESG research, ratings and data.

## **Incentives**

All Velanne’s staff are evaluated on their contribution to Velanne in a formal written appraisal ordinarily carried out on an annual basis. This is used as the basis for remuneration and to identify any training needs for which the individual will be supported by Velanne and its management. The total compensation pool is determined by the firm’s profitability. Individual bonus and salary levels are reviewed annually. They are based on that individual’s contribution, which is an overall assessment of their work quality and commitment rather than any set performance criteria or algorithms. This, in combination with the equity in the business held by all working partners that have passed the probationary period, ensures alignment and encourages the team to protect and grow its Clients’ capital which naturally requires consideration of stewardship.

## **Outcome**

Velanne applied its approach to stewardship in a considered and consistent manner throughout the year under review. The close alignment of the interests of its Clients with the personal and collective interests of its employees through Velanne’s remuneration policy ensures that the stewardship contribution to the investment process delivers value for Clients and employees alike.

## **Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**

### **Controls**

Conflicts of interest may arise between Velanne and/or its employees and a Client or between one Client and another Client. Velanne recognises 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 employees with the interests of Clients. Where a conflict of interest arises between Clients, Velanne endeavours to ensure that all Clients benefit equally from an opportunity.

Measures to manage potential conflicts of interest include ensuring:

- Velanne does not retain any third (3<sup>rd</sup>) parties to market or promote its investment products.
- Velanne has a list of approved brokers and monitors “best execution” on a trade by trade basis.
- Velanne does not have any affiliated brokers and does not trade as principal.
- Velanne does not permit Clients to direct trades to any particular broker.
- Clients do not pay “soft dollar” commissions and Velanne does not receive “soft dollar” benefits from brokers. Velanne pays for third (3<sup>rd</sup>) party research and research-related services out of its own financial resources.
- Staff and their related parties invest in Velanne’s commingled funds on the same terms as unrelated unitholders.

- Staff members are not permitted to buy publicly traded equity securities for their own account and/or the accounts of others. Further, staff members are required to, with the prior permission of Velanne's Chief Compliance Officer, dispose of publicly traded equity securities they receive by way of gift or inheritance within two years of receipt, unless this requirement is waived by the Board of Directors.
- Staff members are not permitted to make political contributions.
- Staff members require the prior permission of Velanne's Chief Compliance Officer to contribute to charities over a material threshold.
- Independent third (3<sup>rd</sup>) party administrators value all Clients' portfolios.
- Independent third (3<sup>rd</sup>) party custodians hold all Clients' securities.
- Members of staff may only accept gifts and entertainment of immaterial value.

All proxy votes require review and authorisation by at least one member of the Investment Team. All members of the team require an understanding of the firm's conflicts of interest policy.

Where a vote is deemed material, two investment managers will review and authorise the vote. In addition, two investment manager signatures will be required when the security being voted on has been deemed a 'conflict security'. Conflict securities are logged in a conflicts register maintained by Compliance. This is a record of any parties with which a conflict has been identified. The purpose being to ensure that extra care and attention is paid in addressing a situation such as when voting a proxy or engaging with an issuer, where a conflict or additional risk has been identified. The conflicts register is circulated to all employees on a quarterly basis. Employees are required to review the register for accuracy and inform Compliance of any amendments.

### **Outcome**

No new actual or potential conflicts were identified by the firm during the year.

The firm's Conflicts of Interest Policy is available on request.

### **Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**

Fundamental research is one of the primary components of Velanne's investment process. Market-wide and systemic risks are directly relevant to the valuation of portfolio companies and are identified by the Investment Team in the course of their analysis.

### **Actions**

Velanne identified one primary market-wide risk this year and acted as it deemed appropriate to protect its Clients' best interests. These risks are discussed below:

### **COVID-19**

Despite being a value manager, Velanne has a strong preference for investing its Clients' assets in well-capitalised companies that are self-financing, as it believes balance sheet risk is rarely rewarded. It is consequently in its Clients' interests to minimise such risk, to the extent practicable.

The COVID-19 downturn was a good stress test of this conservative approach.

One of the positive features of the turbulent environment of 2020 has been the broadening of the value opportunity set to a range of companies and industries that face cyclical COVID-19 headwinds rather than disruptive risks.

As a value manager, we see opportunity in out-of-favour companies. As a result, during market downturns, such as the downturn in March 2020 caused by COVID-19, Velanne Clients' portfolio is often a provider of market liquidity. Velanne typically causes its Clients to build positions in companies at times when the conventional market sentiment is to dispose of those positions due to short-term pessimism.

### **Outcome**

Velanne's approach to investment, based on fundamental analysis, puts it in a good position to identify and assess systemic and market-wide risks.

### **Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.**

Velanne's Risk Management Group reviews all firm policies, including its proxy voting policy and procedures, on an annual basis. The implementation of the firm's policies and their supporting procedures and controls are subject to review by the firm's compliance team, typically on an annual basis. The findings of these reviews, together with the outcome of any post-event review of errors identified, analysed and documented in accordance with Velanne's error policy, are considered by management and any shortcomings or control weaknesses are addressed through a change in process or control.

### **Principle 6 – Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.**

As noted above, Velanne offers a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. Velanne does not manage any other asset class on behalf of its Clients.

Velanne has a small number of Clients. As of 31 December 2020, Velanne: (i) manages one US-based commingled fund; (ii) acts as the delegated investment manager for a Dublin-based UCITS vehicle; and (iii) manages a separate account on behalf of one institutional client. Velanne currently manages ~USD 380 million of assets on behalf of its Clients.

Unitholders in Velanne's commingled funds are themselves institutional investors. Unitholders in Velanne's US-based commingled fund are required to meet the "*Accredited Investors*" and "*Qualified Purchasers*" standards as defined by the US Securities and Exchange Commission.

Velanne has an overriding duty to act in the best interests of all Clients when making investment decisions. Not all unitholders and separate account clients will share the same view and some may hold opposing views. Velanne consequently does not accept unitholder or separate account client direction on proxy voting or corporate governance issues.

### **Time Horizon**

Velanne considers that a long time horizon, of at least three to five years, is appropriate to meet the needs of its Clients and their underlying beneficiaries. Over a shorter period, there would be a greater risk of volatility from economic and stock market cycles. The value investment philosophy followed by the firm can have relatively prolonged periods out of favour. A longer time horizon also accords with how Velanne

assesses the prospects of the companies in which its Clients invest. This reflects opportunities presented by the stock market to realise profits and recycle the proceeds into more attractively valued companies.

### **Reporting**

Velanne communicates with unitholders, separate account clients and consultants through meetings and correspondence.

Unitholders receive a monthly newsletter from Velanne discussing items such as the firm's investment philosophy and process, holdings and performance. The separate account client receives a quarterly reporting pack that has been tailored to their needs.

Unitholders and separate account clients can receive a quarterly summary of proxies voted by contacting Velanne's Client Services representatives and asking to be included on the quarterly proxy voting summary distribution list.

Velanne provides its UK Stewardship Code Statement and its Proxy Voting Policy (see Appendix 1), to prospective investors prior to investment and to existing unitholders and separate account clients on an annual basis. The documents are also available on Velanne's website ([www.velanneam.com](http://www.velanneam.com)).

### **Outcome**

Velanne's approach to taking account of the needs of unitholders, separate account client and their beneficiaries is founded upon regular reporting and contact/dialogue with those parties/their investment consultants. As noted above it is not always possible to accommodate the preferences of all beneficiaries. However, this Stewardship Code document has been enhanced and increases Velanne's stewardship reporting to clients. Velanne will continue to have regular dialogue with unitholders, separate account clients, consultants and prospects throughout 2021 and beyond.

### **Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate changes, to fulfil their responsibilities.**

As noted above, Velanne offers a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. Velanne does not manage any other asset class on behalf of its Clients. As a result, the integration of stewardship and investment discussed in this document applies across the firm.

### **Researching Companies**

Velanne's investment philosophy relies upon a long-term outlook. Consequently, researching each portfolio company and prospective portfolio company to assess the quality of its business is fundamental to Velanne's investment process. Velanne carries out financial and non-financial analysis on current and prospective investments, including reviews of their underlying business strengths and weaknesses, their plans, their practices and their management.

Velanne predominantly researches each company by reviewing the company's annual report and similar information published by the company. Velanne also monitors each company by, amongst other things, reviewing third party research and news-flow. It may also have one-to-one meetings or calls with members of the company's management team, board and/or investor relations representatives. Velanne's Investment Team prepares detailed reports on each portfolio company. Whilst Velanne's investment process is deliberately structured to discourage undue focus on short-term "market noise", ongoing and vigilant monitoring remains integral to Velanne's process.

As part of its research efforts, Velanne considers whether there are any issues of material concern with companies. Such issues may relate to companies' strategic, operational, sustainability or financial practices.

### **Sustainability Integration**

Velanne employs an evidenced-based approach to assessing business quality. Areas of focus include significant barriers to entry, monopolistic or quasi-monopolistic business, strong free cash flow generation and high operating margins. Within this framework, Velanne may seek to consider relevant sustainability issues, which it believes are financially material factors based on a company's industry and business model. Velanne's Environmental, Social & Governance Policy is included as Appendix 2.

### **Time Horizon**

As noted above, Velanne considers that a long time horizon is required to meet the needs of its Clients and their underlying beneficiaries. As long-term investors, Velanne's Clients have scope to benefit as these companies better position themselves for sustainable value creation over time.

## **Principle 8 – Signatories monitor and hold to account managers and/or service providers.**

### **Proxy Voting Research and Platform**

Velanne most recently reviewed its proxy voting research provider in 2018, and at that time, on the basis of the quality of its research, appointed ISS in place of Broadridge. Velanne keeps the quality of research provided by ISS under review and additional (or replacement) providers will be sought in the future in the interests of enhancing Velanne's research and proxy voting process for the benefit of its Clients.

### **Specialist ESG Research**

Velanne has been reviewing potential specialist ESG research providers. As of the date of this document, Velanne is in a trial period with a specialist ESG research provider following the conclusion of which Velanne will consider the benefits to its investment program and the best interests of its Clients arising from the appointment of a specialist ESG research provider on an ongoing basis.

### **Sell-side Research**

Velanne reviews its sell-side research requirements annually.

The sell-side research marketplace is highly competitive and consequently where the quality, coverage or usefulness of a provider's research falls short of Velanne's expectations, Velanne removes the provider from its approved provider list and the contract with the provider is not renewed.

Velanne does not delegate any part of its investment management process to other managers.

Velanne's proxy voting policy is included as Appendix 1.

## **Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.**

As part of the investment process, Velanne seeks to align itself with boards who act in the long-term interests of public shareholders. As a value manager, Velanne sees opportunity in out-of-favour companies, including those facing corporate sustainability challenges. In such instances, consistent with its approaches outlined in its responses to Principles 1 and 7, intervention to protect or enhance a company's long-term development and value creation may be necessary.

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 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.

### **Actions**

In order to maintain or enhance the value of Client assets, Velanne may engage with the issuer in a number of ways. This can include calls with activists, investor relations, senior executives, chairman/non-executives or formal escalation letters.

As a relatively new business, the way in which Velanne engages with issuers and monitors the effectiveness of that engagement is a process that is continuing to develop as the business establishes itself. Velanne will keep its engagement activities under review and assess ways in which it can meaningfully report the outcome of those activities.

### **Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.**

It is Velanne's preference to engage with portfolio companies on an individual basis; however, subject to regulatory restrictions, conflicts of interest and acting in concert restrictions – and where it is in the best interests of our Clients to do so – Velanne will participate in collaborative engagement activities. These are considered on a case-by-case basis and addressed in the context of the economic environment and other business issues. In the event Velanne is involved in significant collective engagement a description will be included in its Annual Engagement Disclosure.

### **Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.**

Meetings and other communications with portfolio companies provides Velanne the opportunity to discuss matters of a material nature. Velanne prefers to keep these discussions private and confidential as this enables Velanne to build effective relationships with management teams and boards. However, if any concerns Velanne has are not suitably addressed during these discussions – and where it is necessary

to protect its Clients' investments – Velanne will consider the escalating the issue to influence portfolio companies.

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 12 – Signatories actively exercise their rights and responsibilities.**

Velanne's proxy voting process involves reviewing a company's materials and our own investment research. Velanne also reviews, but does not necessarily follow, the recommendations of ISS' proxy voting research. Velanne does not provide a standard policy to ISS for casting proxy votes, preferring to vote each ballot individually and rely on Velanne's own internal controls for ensuring votes are cast correctly in accordance with the firm's policy and the Investment Team's direction. As noted in Principle 6 above, Velanne does not accept Client direction on proxy voting or corporate governance issues.

**Voting Activity**

Throughout 2020, Velanne voted on motions at 57 company meetings (AGMs, OGMs, SGMs and EGMs). Velanne voted against at least one of management's recommendations at 23 (40%) of the meetings. Further, of the 735 total balloted items to vote on, Velanne voted against management's recommendations on 58 (8%) of the items.

A summary of Velanne's votes against management's recommendations is included in the table below:

<b><u>Rationale for votes against management</u></b>	<b><u>No. of Votes</u></b>
Remuneration	11
Election of Directors/Chairman	27
Issuance of Equity	15
Other	5
Total	58

Throughout 2020, Velanne voted against at least one of ISS' recommendations at 14 (24%) of the meetings. Further, of the 735 total balloted items to vote on, Velanne voted against ISS' recommendations on 31 (4%) of the items.

Velanne deemed, on each occasion, that voting against the recommendation of management or ISS was the best course of action to protect its Clients' interests in accordance with its investment approach and proxy voting policy (described above). As noted above, a quarterly report of proxy votes cast is available to Clients on request.

A summary of Velanne's material voting activities (if any) for the calendar year is included in its Annual Engagement Disclosure (see Appendix 3 below).

## Appendix 1

### 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 the Fund 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 the Fund’s 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 Fund.

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 invested in one of Velanne’s privately offered commingled funds, a portfolio company or one of its affiliated entities is also a brokerage counterparty to the Fund’s security or foreign currency transactions or where the person responsible for overseeing investments at a client that is invested in one of Velanne’s privately offered commingled funds 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 Custodial Trustee holds all Fund securities, cash and other assets for the benefit of the Unitholders. The Custodial Trustee has outsourced certain of its proxy processing 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 the Custodial Trustee and ISS and one in place between the Custodial Trustee and Velanne. Velanne does not outsource any part of its proxy voting decision making process to ISS or the Custodial Trustee.

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 the Fund 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 the Custodial Trustee or ISS does not provide a voting service in a given market, because the Custodial Trustee or its agent, 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 the Fund, where a specific class of shares does not carry voting rights with respect to a given issue subject to shareholder vote, or where re-registration of the shares into the Fund's (rather than the Custodial Trustee nominee's) name may (or may reasonably be expected to) result in a violation of local privacy laws or adversely impact the Fund'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 the Fund's 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 John Reynolds ([jreynolds@velanneam.com](mailto:jreynolds@velanneam.com)), Velanne's Head of Marketing, and asking to be included on the quarterly proxy voting distribution list.

## Appendix 2

### Environmental, Social and Governance Policy

Velanne's investment team takes Environmental, Social and Governance ("ESG") concerns, especially those related to corporate governance, into account as part of the firm's investment process.

At Velanne, our mission is to achieve superior investment performance. We choose not to make a moral judgement on what companies may qualify under an ESG lens, but instead we ensure that our investments are financially sustainable. Our process and analytical framework is designed to identify companies that will survive over the very long-term and that are trading at attractive discounts to intrinsic value. In this ever-changing world, it means that we must consider how future free cash flow ("FCF") generation will be impacted for better or worse by ESG considerations.

As we ask ourselves whether a company under review will be around in thirty years' time, we investigate changing consumption patterns, potential sources of disruption, labour relations and compensation, as well as a company's environmental impact and broad cost of remediation. Since Management is one of our four central investment criteria, we place considerable importance on Governance. We want to see aligned interests with management in terms of compensation and a genuinely long-term perspective, all of which help protect our investments against ESG risks. The team takes proxy-voting very seriously and frequently vote against management if they act against shareholders' interests.

In a practical sense, the ESG perspective is embedded within our quality, management and valuation analysis and plays an important part in our investment decision. We use a checklist to ensure ESG questions are unavoidably addressed. In terms of valuation, we run a scenario analysis to evaluate how a company's emissions intensity and a potential carbon tax might affect its future FCF generation. It is also important to consider how the FCF yield might adversely reflect a 'stranded asset' valuation and become a value trap. Like all parts of the investment process, we strive to refine and improve the ways we invest, and so we would expect to build further on this formal incorporation of ESG matters over the coming years.

There will be circumstances where clients 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). In these circumstances, Velanne will carefully consider the particular client's views on the matter but believes it has a fiduciary responsibility to consider the best interests of all participating clients when making investment decisions for a commingled fund portfolio. Separate account clients have the capacity to place limitations within their mandate although Velanne will always ensure the consequences of any investment restrictions on its investment strategy are fully considered. Going forward, we will continue to monitor industry developments in ESG and engage in constructive dialogue with our clients and prospects in determining any consequential change in investment approach.

## Appendix 3

### 2020 Annual Engagement Disclosure

The Shareholder Rights Directive II (“SRD II”) is an EU Directive that sets out to strengthen the position of shareholders and to reduce short termism and excessive risk taking by companies. It amends SRD I, which came into effect in 2007, with the aim of promoting effective stewardship and long-term investment decision making. It sets requirements in several areas, including transparency of engagement policies and investment strategies across the institutional investment community. SRD II became effective in EU Member States on 10 June 2019 and was implemented in the UK through amendments to the SYSC and COBS sections of the FCA Handbook. In its implementation of SRD II the FCA expanded the scope of application beyond equities listed in the EEA (as required by SRD II), to include comparable equities listed outside of the EEA.

#### Annual Disclosure Requirements

SRD II requires Velanne Asset Management Limited (“**Velanne**”) to publish an annual disclosure on engagement, including a general description of proxy voting behaviour and details of any significant votes, as well as use of proxy advisers.

##### *The proxy voting process*

Velanne’s proxy voting process involves the Investment Team reviewing, although not necessarily following, the recommendations of ISS’ proxy voting research. ISS is one of the two leading providers of proxy voting research.

For high-level statistics on Velanne’s proxy voting patterns, please see the firm’s response to Principle 12 of the UK Stewardship Code above.

##### *The Engagement Process*

Engagement with companies, outside of discussions of matters to be voted on at meetings, is typically instigated by the Investment Team. Further information on the firm’s engagement activity with companies is described in the firm’s response to Principle 9 of the UK Stewardship Code above.

Velanne is not publishing the votes it has cast in 2020. Votes cast are not considered to be significant due to the size of Velanne’s holding in each company. Velanne is keeping its approach under review and anticipates that when its holdings in a company rise above 2.5% of issued capital or voting rights a measure of significance will be applied to identify votes which merit separate reporting within this annual disclosure. Significance is likely to be determined by the size of the holding in the issuer company as well as the subject matter of the votes.