



Statement on Environmental Social and Governance (“ESG”)

September 2020





Long Term Commitment

Hudson Structured Capital Management Ltd. (“HSCM” or the “Firm”) is an asset manager built on thought leadership, teamwork, and a commitment to excellence. As such the Firm looks for effective ways to create community, engage employees, each of whom is concerned to meet such objectives, and drive value to achieve returns. Environmental, social, and responsible governance (“ESG”) helps with these goals by enabling HSCM to positively impact all its stakeholders through responsible business practices, thoughtful investment due diligence, and inclusive firmwide policies and initiatives.

Specifically, HSCM believes that incorporating ESG factors into its due diligence processes is an essential practice as it increases alignment of interest between the Firm, its clients, and its employees. It is also a matter of good fiduciary and investment practice, sound risk management, and simultaneously makes a positive financial impact on the performance of its funds and clients’ portfolios because practices contrary to ESG are increasingly penalized by the market. As HSCM strives to ensure it functions in a sound and ethical manner, it considers the potential impact of its operational decisions on the environment and the community within which it operates. As such, the firm upholds appropriate governance structures to ensure consistent implementation of ESG measures across the organization and to help drive enhanced risk-adjusted returns, but is always looking for ways to improve further.

Responsible Investment Approach

In all of the Firm’s investment strategies HSCM evaluates companies and investments against its proprietary ESG framework and any other key factors it deems material. The relevant investment team and investment team leaders are responsible for incorporating and considering these ESG factors and, thus, document them as part of an Investment Committee Memorandum (“Investment Memo” or “Memo”), which is reviewed and must be approved by the Investment Committee prior to making the final investment decision. In addition, a portfolio level ESG review is incorporated into the Firm’s quarterly investment strategy meeting through a team member presentation on ESG considerations throughout the quarter and potential additions to the process. Please note that while ESG factors are an input into HSCM’s investment process, they are not the sole or primary determinant in an investment decision.

While fundamental to assessing investments, formally documenting this information also provides a basis for feedback and comparison, and can subsequently be used to guide other companies on potential improvements they can make across their operations, governance, investment processes, and/or reporting when applicable.

HSCM generally does not apply investment exclusions across its funds based solely on ESG factors. However, the Firm does ensure that it follows all applicable laws and regulations, some of which have an ESG component, and seeks to engage with companies on issues that have the potential to impact investment returns. As part of the investment due diligence process, HSCM may speak with private companies, counterparties, and cedants to raise questions including considerations integral to ESG suitability. In general, the aim of this engagement is to generate additional insights into the company or investment opportunity and potentially facilitate specific changes, often based on the Firm’s principles, both of which are used to inform an investment decision. Investment policies and objectives differ between the Firm’s investment strategies and as such, the relevant ESG criteria are not the same.

Re/Insurance: While ESG factors are considered in connection with the team’s general underwriting process, characteristics considered for each individual deal vary based on the underlying risk, structure



and investment type. Examples of ways in which HSCM's ESG framework has been incorporated into the Reinsurance team's underwriting processes include:

- *Alignment of Interest:* Insurance-linked securities ("ILS") are inherently aligned with ESG attributes as adverse weather negatively impacts the securities. Property re/insurance, for example, is driven by environmental factors such as the exposure to certain, often weather related, risks. In hurricane-prone areas, coastal property development has created long term social costs, including dangerous working and living conditions for portions of the population. Communities with safer infrastructure are therefore rewarded with typically lower priced re/insurance than others which are more at risk, and therefore are exposed to larger insurance losses. This price discovery and differentiation exemplifies the relative benefits of environmental risk mitigation for communities. It also aligns incentives for better risk management between reinsurers and the communities that are insured.
- *Considering and Modeling Climate Change:* When underwriting an investment, the Firm incorporates the potential impact of environmental changes, particularly factors like rising sea surface temperatures into its modeling. This helps HSCM to better understand the underlying risk/reward profile of each potential investment.
- *Evaluating Corporate Governance:* Evaluating sound corporate governance is an important tenant of HSCM's underwriting process when viewing counter-party risk. From time to time, mismanagement, or lack of understanding by management, around these crucial factors at the executive level has contributed to the Firm's decision to not make an investment. The Firm expects this review to remain an important contributing factor to its underwriting practices going forward as well.
- *Striving for Positive Social Impact:* Re/Insurance and forms of ILS help enable access to affordable insurance, which is key to a well-functioning economy. As HSCM engages in reinsurance contracts, the Firm takes risk off the books of its counterparty, enabling them to have more capital through which they can repay policy claims. The increased capital, and decreased risk exposure of the underlying insurer, also enables them to distribute policies more widely and at a lower cost.

Transport: HSCM encourages investment in companies which espouse diversity and inclusion principles, make efforts to reduce carbon emissions, and have strong corporate governance policies. Examples of this are evident in the strategy's investment themes and include the following:

- *Reducing Carbon Emissions:* HSCM considers the policies and actions an issuer is taking towards the reduction of Green House Gases ("GHG") in its investment process. The Firm also reviews adherence and participation in regional or global emission reduction initiatives and monitors investments periodically against regulatory standards and aspirational goals. In evaluating progress by individual issuers within transportation subsectors, the Firm looks to certain GHG reduction programs, which are sponsored by special agencies of the United Nations, such as the International Civil Aviation Organization ("ICAO") and the International Maritime Organization ("IMO"). Key targets include the following:
 - Aviation – The ICAO has set aspirational global goals for CO2 emissions, including a 2% annual fuel efficiency improvement and carbon neutral growth by 2020 onwards. In addition, the ICAO has sponsored the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA") with a goal of cutting CO2 emissions in half by 2050 relative to 2005 baseline, an important milestone for airlines to target. Further, HSCM supports the US Environmental Protection Agency's ("EPA") proposed GHG emission standards, set to be the US's first climate standards for commercial airliners and large business jets, which reiterate many rules from the ICAO.
 - Maritime – HSCM requires compliance with IMO 2020 emission regulations when considering an investing in a maritime issuer. IMO 2020 aims to cut GHG emissions in half by 2050, compared to 2008, and the reduce CO2 emissions by 40% by 2030, and 70% by 2050.



- Auto/Truck – HSCM requires compliance with US, Corporate Average Fuel Economy (“CAFE”) standards when considering an investment into an auto-equipment or auto issuer. Further, the Firm has focused on mobile connectivity which helps optimize the routes and services for the current vehicle fleet and reduces overall miles driven, electrification which directly reduces noxious emissions, and autonomous vehicles which can combine benefits from both.
- *Supporting Shift towards Sustainability:* HSCM also considers sustainability efforts by issuers in its investment process. Biofuels have been used in passenger vehicles and are currently in development in aviation, while recycling is also gaining increasing prominence. In both aviation and maritime, the ability to sell parts of an asset to extend its useful life is an integral part of the Firm’s investment criteria. Within maritime, HSCM seeks to ensure that vessels sold for scrap are recycled in compliance with Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships.
- *Encouraging Diverse Labor Forces:* HSCM seeks to invest in issuers with a commitment to diversity and fair labor practices. To that end, the Firm will not consider investing in an issuer that is not in compliance with labor regulations or laws.
- *Evaluating Corporate Governance:* Corporate governance is a key factor in HSCM’s underwriting process for any company. As part of the Firm’s diligence process, a review of governance practices with management is required.

All Strategies: To further its commitment to ESG policies and practices, HSCM is seeking to become a signatory to the United Nations-supported Principles for Responsible Investment (“PRI”) initiative as the Firm is committed to incorporating these principles into its investment process when evaluating opportunities within its Investment Strategies. In addition to seeking to comply with UN PRI in the future, HSCM is looking to ensure that, where appropriate, the Firm’s internal and investment policies reflect the core values of the PRI.

Corporate Culture

Dedicated ESG Committee: To facilitate the continued alignment of interests and seek the most up-to-date and innovative policies, HSCM has formed a dedicated ESG Committee which is led by Michael Millette, and comprised of a senior member from each of the firm’s major teams (both investment teams and corporate teams) to ensure consistent ESG integration across the Firm. There will also be an ESG Research committee which focuses on more specific initiatives and reports back to the ESG Committee on a quarterly basis.

Training: Many HSCM employees have shown an interest in participating in philanthropy, diversity/inclusion, sustainability, and community engagement initiatives. While the investment teams are ultimately responsible for integrating the ESG framework into the due diligence processes and reporting to the wider firm on progress made, multiple groups undertake ESG at the corporate and management level based on skillset, interests, and resources available. Employees will be made aware of all available resources and initiatives through HSCM’s annual training on policies and procedures which will also include a list of ESG projects associated with members of the Firm. HSCM seeks to integrate ESG processes, goals, and objectives into the Firm’s training program as thoroughly as possible.

Sustainability: A core aspect of implementing ESG measures is to ensure that the Firm’s global footprint ultimately ends up being a net positive impact. In addition to the standard corporate recycling programs implemented by each respective HSCM office, the Helmsley building in New York City – where the firm has its New York office - has the following certifications: U.S. Green Building Council LEED Gold for Existing Buildings: O&M, U.S. Environmental Protection Agency: ENERGY STAR, BOMA 360 Performance Building.



The Firm's office in Stamford, Connecticut (2187 Atlantic Street) has been also been re-commissioned to optimize efficiency, reducing energy consumption through upgrading to energy management systems that continuously monitor energy consumption in real time, improve operational efficiencies, set energy reduction goals, and track carbon emissions. Building common areas and parking garages are retrofitted with ENERGY STAR-rated LED lighting and bathrooms have low-flow restroom fixtures and automatic flush valves; low-water use drought-resistant perennials; rain sensors on irrigation systems; eco-friendly cleaning supplies.

Corporate Governance: HSCM recognizes the importance of corporate governance practices that help ensure an environment of effective oversight and accountability. The Board of Directors, partners, and other members of senior management of HSCM ("HSCM Management") seek to achieve this goal while promoting the interests of stakeholders. HSCM Management places emphasis on a common set of expectations among each member of the group and they possess a broad range of skills, expertise, industry and other knowledge, and business experience useful to the effective oversight of HSCM business activities.

Community Engagement: HSCM believes in giving back to the communities in which it operates. The company has been outspoken on important causes to both employees and to the market participants with whom it interacts. The Firm is also seeking to introduce several initiatives aimed at encouraging employees to participate and contribute to a range of charitable organizations. In 2021, the Firm plans on holding its first annual Volunteer Day, which gives employees across all three offices the opportunity to build stronger relationships in their communities. Individual ongoing community engagement is also encouraged. Anyone interested in participating in a program can reach out to ESG@HSCM.com for further details on how to become involved.

Charitable Giving: HSCM and its employees take active roles in many philanthropic initiatives through impact organizations in the communities in which they work and live. Some common causes include: youth mentoring, child/adult special education, gender diversity, public health, women's leadership, and the arts. There is a commitment to philanthropic organizations and causes throughout all levels of the Firm.

HSCM aims to hold multiple Volunteer Days each year, which encourages camaraderie among employees and allows members of the firm to work together, donating their time to local causes during business hours.

Diversity & Inclusion: HSCM strives to build teams that reflect the business opportunities within the industry and clients with whom it engages around the globe. The Firm encourages diversity in its workforce, as well as in many aspects of the Firm's decision making. HSCM strongly believes that diverse and inclusive teams make better decisions, bring more information to the table, and deliver better overall outcomes for clients.

Internships and Mentorships: HSCM conducts a formal internship program every summer with an emphasis on education and identifying talented individuals with whom to build relationships for potential future hiring. In addition to integrating interns into the daily business activities of the Firm, each intern is sought to be matched with a more senior employee who serves as their mentor, providing guidance throughout the experience, and potentially thereafter. The intern class also conducts a summer-long research project on a topic of interest to the Firm and presents it to the broader company. While this experience is advantageous for the Firm, it also provides each intern with continuing education, a professional resource to provide guidance, and may help them source opportunities within HSCM or elsewhere. Going forward, the Firm is seeking to source interns from underrepresented groups and communities to ensure that the benefit of the Firm's program is far reaching.



Safe & Healthy Work Environment: One of the highest priorities at HSCM is for all employees, clients, and other members of the community who engage with individuals at the Firm to feel safe and comfortable when in the presence of members of the HSCM community. This not only encourages positive interactions and recurring relationships, but it also ensures that employees are confident and productive, focusing their time and attention to work related projects, which betters the firm and its clients. As such, HSCM provides laptops (and additional technology) to all employees that need one, healthy snacks (ordered by employees) in each office pantry, and required training on various topics, such as anti-sexual harassment and cybersecurity. Furthermore, entry-level Analysts and Summer Analysts are matched with a senior mentor at the firm to help them navigate the organization.

Reporting & Monitoring

Since its founding, HSCM has sought to maintain a strong ethical and compliance-oriented culture and a focus on radical transparency around its decision-making processes and portfolio. The Firm also prides itself on maintaining what it views as the highest business and ethical standards and practices. As part of its ESG framework, it seeks to regularly monitor investments through quarterly strategy meetings and an annual review of HSCM's ESG efforts by the ESG Research Committee and portfolio management team.

The ESG Research team will regularly scan reliable online media to track ESG related news and developments that may be relevant to the Firm or its portfolio companies. The Firm is putting an emphasis on ensuring that the ESG Committee, and particularly its clients, are made aware of any material issues promptly and accurately, especially with regards to ESG given the reputational risk it can pose.

Summary

HSCM continuously seeks to best align its interests with those of its investors, partners, issuers, and employees. This has allowed the Firm to proudly build and maintain a culture of ethical behavior, radical transparency, and corporate and social responsibility with regards to both its investments and its operations. As such, HSCM has adopted the ESG measures above to formalize a commitment in the space and highlight its importance as a core Firm initiative.