

ESG FRAMEWORK

OUR COMMITMENT

East Coast is committed to Environmental, Social and Governance (ESG) matters as a key consideration in our rigorous pursuit of the long-term preservation and growth of our investors' capital. We believe incorporating ESG considerations into our research, management and monitoring practices, better positions us to continue to uncover attractive investment opportunities with long-term sustainable themes in an evolving market. East Coast is a leader in the fixed income market and championing ESG issues not only has a positive effect on generating attractive risk-adjusted returns for our investors but also promotes values within the investment management industry which are consistent with our clients and our own.

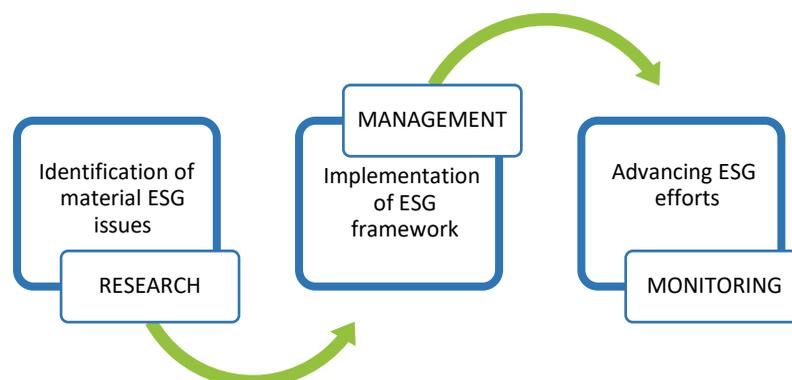
OUR POLICY

We adhere to a 3-principle policy to ensure that responsible investment considerations are continuously incorporated into our core investment strategy – and not a separate, parallel effort. Through these three primary principles, we feel we can integrate all drivers of long-term value creation and fulfill our fiduciary duty to our investors.

1. **Research:** We believe an in-depth analysis of ESG matters can uncover sources of alpha, and offers invaluable insights on a businesses core processes and standards.
 - Identifying traits of a security that may not have been considered by that security's price, but which may affect its desirability from a fundamental point of view.
 - Seeking to understand how the companies we invest in manage ESG issues in order to create a holistic investment approach.
 - Performing the appropriate due-diligence required to evaluate and rank a company's transparency in regards to ESG concerns.
2. **Management:** We integrate these practices and implement strategic initiatives to advance sustainability across all our exposures.
 - Considering ESG issues in the selection of our investments and incorporating ESG performance ratings to ensure we are aligned with industry standards.
 - Enhancing our integration of ESG factors into decision-making across the entire firm.
 - Supporting ESG related aspects of existing investments and remaining focused and accountable to our policy.
3. **Monitoring:** We consider relevant indicators of progress such as the proportion of assets under management that are formally ESG-integrated.
 - Collaborating with industry professionals, as well as engaging with clients in order to better anticipate their evolving ESG-related objectives.
 - Facilitating the sharing of research, analysis and insights on ESG issues and trends and ensuring accurate and timely reporting to third-party organizations on our ESG investing activities.
 - Reviewing our policy on an annual basis in an effort to remain flexible in our evaluations as social and governance norms evolve, and environmental concerns emerge.

Our holistic investment strategy ensures there is no systematic performance drawback associated with our sustainable investing practices.

Our 3-principle policy provides us with the ability to invest with positive impact.



OUR INTEGRATION

Our mission remains to create a positive impact portfolio through identifying companies that plan on being around for generations, not just the next quarter. Adherence to environmental procedures and concerns, positive ethical influence on employees and community, and sound executive structure make for good, long-term business and screening for these qualities allows us to focus our investment dollars on companies leading the movement. At East Coast, we have committed to ensure we meet best-in class standards.

EAST COAST'S ESG CONSIDERATIONS IN PRACTICE

EXAMPLE – VOLKSWAGEN (GOVERNANCE)

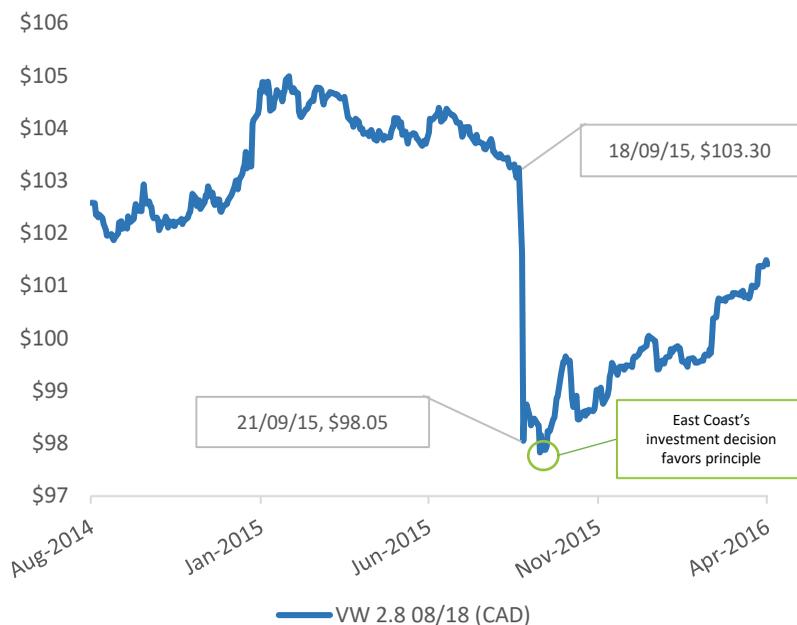
Volkswagen is a German automaker, founded in 1937 and originally known as “The People’s Car”. Our initial interest in their credit stemmed from our involvement with other German automakers (BMW and Daimler AG) that have been positive contributors to our portfolio over the years. However, when our team assessed the associated risks and future earnings potential of the company, our thorough analysis raised concerns about the company’s strategic motivations, as well as uncovered several corporate governance red flags.

1. In 2005, the company was rocked by a compliance scandal, involving allegations of bribes and kickbacks as well as luxury trips for members of the works council.
2. Surfacing in 2009, the concern of key-man risk, as an overwhelming control was vested in a few hands, raising questions about the Board’s effectiveness and the company’s voting structure — which gave some investors more votes than others.
3. 2013 marked the beginning of a two-year period in which the MSCI’s ESG Impact Monitor would not only flag Volkswagen on controversies classified under the headings of product and service quality, bribery and fraud, and collective bargaining, but also drop them from their ESG index altogether.

These developments left our investment team with apprehensions about both i) issuer’s governance and ii) the credit fundamentals of the company. We were confident that both of these concerns would have an impact on returns and therefore our decision not to invest was fueled by the belief that the company simply came with too many risks.

OUTCOME

In September of 2015, Volkswagen drew regulatory scrutiny from the US Environmental Protection Agency as they came under fire for the now infamous “emissions-gate” scandal. The company admitted to the installation of defective devices on 11 million vehicles to cheat on emissions tests, ultimately, leading to the resignation of CEO Martin Winterkorn. In response, the credit spreads on Volkswagen’s bonds widened significantly, as three major rating agencies placed them on negative ratings watch, and eventually the company’s debt moved below investment-grade. The price on Volkswagen’s corporate debt maturing in August 2018 weakened approximately 6% overnight following the release of the news. The scandal effectively wiped billions of Euro’s off the value of the company, and exposed them to multi-billion-dollar fines and investor lawsuits.



PRINCIPLE v PROFITABILITY

At East Coast, we are dedicated to continuous application of ESG considerations, which means balancing a company’s financial metrics with their core business fundamentals, especially during times of investment-decision conflict between principles and potential profitability. In the aftermath of the emissions-gate scandal, prices on VW’s bonds drastically declined and many investors, including competitors in our peer group, looked for opportunities to capitalize. Our decision not to invest in VW at this time was derived from our assessment of their corporate governance inadequacy and the belief that if a company is able to deceive investors, and fraud regulatory agencies once – they are certainly capable of doing it again. The impact the scandal had on the face-value of the company was public, however it was difficult to estimate the possible long-term damages to their intangible assets such as brand trust and reputation, employee morale and loyalty, and investor confidence – all metrics that have an impact on the future financial direction of the company. Simply put, the decision to invest in VW at this time, was in our minds absolute

Throughout Volkswagen's near 100 year history, the company has faced numerous governance related issues.

Fueled by our ESG research, the decision not to invest in Volkswagen allowed us to avoid the spread widening that came on the heels of the emissions-gate scandal.

blind risk, and investors looking to benefit here were choosing to ignore the obvious concerns and continued risks associated with VW's structure of corporate governance. Our ESG framework supports the concept that core competency is created when social responsibility and sustainability are embedded in the company's culture and business strategies – something VW clearly lacked. Trust, once lost, is notoriously hard to regain, and at East Coast we remain confident in our decision.

SUMMARY

This example, along with other investment decisions that we have faced, has helped us understand the impact ESG matters can have and the importance of evaluating issues beyond a company's annual reports. While it would be unfair for us to say that we could have predicted this specific scandal or the ongoing repercussions, we were not surprised that a scandal, fueled by the issuer's governance deficiencies occurred, and ultimately hurt its investors. Moving forward, we remain committed to incorporating and evaluating ESG factors to preserve and grow our client's capital through attractive risk-adjusted returns.

East Coast joins UN-supported Principles for Responsible Investment

By adding our name to the ever-growing network of ESG conscious investment managers, asset owners and service providers, we have agreed to put into practice the six principles for responsible investing. We also pledge our support to the Paris Agreement, in promotion of positive climate change initiatives.

Signatory of:



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