REAMS ASSET MANAGEMENT
A Division of Scout Investments
AN AFFILIATE OF CARILLON TOWER ADVISERS

Environmental, Social and Governance (ESG) Investment Policy

Since our founding in 1981, Reams has focused on fulfilling our fiduciary duty to our clients by seeking to deliver superior risk-adjusted total returns and providing best-in-class service. We are dedicated to helping our clients achieve investment outcomes that meet their specific financial goals and align, when requested, with their stated organizational values.

We believe that the consideration of Environmental, Social, and Governance (ESG) issues in the investment process is part of our fiduciary duty to our clients. In order to formalize our commitment to the integration of ESG factors into the investment process and to better engage with the broader investment community on ESG topics, Reams became a signatory of the Principles for Responsible Investment (PRI) as of January 2019.

ESG Integration In The Investment Process

Reams employs a flexible, qualitative approach to ESG integration that focuses on identifying ESG risk factors and assessing their potential impact. These include long-term ESG risks that might erode an issuer's business prospects, competitive position, credit rating, refinancing capacity, and borrowing costs over time. In addition, ESG analysis can be used to highlight issuers with exposure to event risk with the potential to meaningfully impact the price of its securities in the short term.

In addition to understanding ESG risks, we seek to determine if these risks are material to the specific bond under consideration and whether or not the prevailing risk premium provides appropriate compensation for bearing them. Issuers with significant ESG risks may be considered un-investable in some circumstances, and in others we would require a sufficiently high level of expected return to compensate for the incremental risk. The presence of material ESG risks might prompt us, for example, to prefer a shorter maturity bond over a longer maturity bond from the same issuer. Within the same industry, all else being equal, we may select a bond issued by a company with best-in-class ESG risk management practices over a bond issued by a company with a poor track record of managing its ESG risks.

Historically, our focus has been on identifiable governance and social issues; however, environmental considerations have taken on greater significance as the investment landscape has evolved.

Governance

Reams views governance factors as an essential component of credit risk analysis of corporate issuers. During the course of our fundamental credit analysis, we evaluate the reasonableness of the firm's articulated goals, management's incentives, management's credibility, and alignment of interests with stockholders and bondholders. Important considerations include executive pay structures, board composition and independence, ownership structure and shareholder rights, accounting, audit and tax practices, and occurrence of related-party transactions.

It is not uncommon for management malfeasance to result from poor governance practices. In order to minimize the risk of loss, a component of Reams' investment process is screening for signs of potential fraudulent activity. These signs include rapid debt accumulation, numerous acquisitions, excessive management compensation, loans to management, SEC investigations, and complex financial structures.

Governance issues are also critical to credit analysis related to sovereign and quasi-sovereign issuers, especially with respect to emerging markets issuers. Key considerations relevant to sovereign issuers include corruption, rule of law, political and civil liberties, regulatory systems, regime type and stability, accounting standards, and availability/transparency of economic data.

Social

We believe that social factors can significantly affect the operations and financial stability of a company and therefore must be considered in the valuation of its fixed income securities. Important considerations, across several social dimensions, include employee relations and labor practices, workplace health and safety, customer privacy and data security, product quality and safety, and community relations.

Social issues are also an important part of our credit analysis related to sovereign and quasi-sovereign issuers, in particular when evaluating emerging markets issuers. When we invest in sovereign debt we assess topics such as demographic trends, human rights, political systems, levels of employment, and quality of health care. Countries with severe social problems may be deemed un-investible at any price level.

Environmental

Given our focus on downside risk protection and emphasis on high-quality collateral that is often in the form of hard assets, we frequently hold corporate bonds issued by companies that have exposure to a variety of environmental risks. It is therefore important for us to understand each issuer's exposure to environmental risk factors and determine if these risks are material. Key areas of focus include greenhouse gas emissions, energy resources and management, water and wastewater management, waste and hazardous materials management, and ecological impacts.

We also understand that certain sovereign issuers and securitized bonds backed by commercial and residential real estate, physical plant and equipment, and natural resource receivables may be exposed to long-range environmental risks, in particular those associated with the physical impacts of climate change. If deemed material to the sovereign issuer's creditworthiness or the collateral value backing a securitized instrument, we may evaluate the associated risk factors and incorporate them into our overall credit analysis.

Engagement With Issuers

Despite the inherent challenges and fundamental limitations, we believe that it is important to seek opportunities to engage with bond issuers on relevant ESG topics as circumstances allow. Reams subscribes to a pooled engagement service, whereby the service provider engages with companies on behalf of subscribers to address perceived material ESG issues and risks. We believe this is an effective means for us to leverage the strength of the group and influence issuers with material ESG risks.

Exclusionary Screening

Reams manages fixed income portfolios with a dual focus on achieving superior risk-adjusted returns and meeting the diverse needs of institutional clients. This includes the management of custom mandates according to a variety of SRI guidelines that exclude industries such as alcohol, tobacco, gambling, health and human life, human rights, defense contractors, weapons and ammunition, and for-profit prisons. Similarly, we are open to managing custom separate account mandates according to client-directed guidelines that incorporate ESG considerations aligned with the specific mission and values of our clients, to the extent feasible from an investment and portfolio construction standpoint.