

Responsible Investment Policy – Liquid Alternatives

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How our organization defines ESG:

ESG refers to any environmental, social or governance factor that could positively or negatively affect the risk or return of an industry, sector, or fund. These factors can be company specific, like board independence, or systemic, like climate change. We consider “ESG strategy” to be synonymous with “Responsible Investment” strategy.

ESG issues are generally not relevant to our Liquid Alternative Fund mandates because:

Our Liquid Alternative strategies are usually short-duration and high-turnover where ESG factors are not material during the short holding period. As an important component of the fund, our event-driven or arbitrage strategy seeks to capture a spread from an acquisition with the target company no longer expected to remain a going concern making ESG considerations irrelevant from an investment perspective.

However, for positions we tend to hold longer term, accessing ESG factors can potentially improve the quality of fundamental equity and credit analysis in both public and private markets by incorporating a broader information set beyond financial statements. ESG analysis also helps us identify factors which could impede an acquisition from obtaining the necessary approvals to close. Ultimately, we believe incorporating ESG analysis into our investment process is consistent with our investment philosophy: It helps to better understand the quality of a business or security, better determine factors that may impact value, deploy capital in flexible mandates and mitigate downside risk.

Scope of ESG considerations for our Liquid Alternative Fund mandates:

ESG strategies tend to conform to at least seven distinct forms¹. ESG integration refers to the systematic and explicit inclusion of ESG risks and opportunities in the investment process.

ESG Integration is the ESG strategy that applies across all Pender Liquid Alternative mandates and the level of ESG Integration for a given investment will depend on considerations, including:

1. Risk and reward considerations – ESG considerations are part of our holistic approach to investment and business analysis. The relative importance of ESG

¹ See Appendix

issues can vary by security or investment approach relative to traditional risk and reward considerations.

2. Materiality – We consider sustainability factors that are financially material for short, medium and long-term enterprise value.
3. Estimated duration of the investment of the individual holding or underlying strategy – We believe ESG considerations tend to be greater as the time horizon is extended. In the long term, we believe ESG considerations that can potentially have an impact on the intrinsic value of a business or security will ultimately be reflected in security prices. Short-term, trading-oriented strategies, including event-driven strategies and hedged positions which have no exposure to the underlying business, could have minimal considerations, whereas securities with a longer anticipated holding period are more likely to include systematic and explicit inclusion of ESG risks and opportunities.
4. Ownership stake within the context of the company and/or portfolio - Ownership stakes where we have meaningful influence on management or are significant weightings within a portfolio will generally receive greater consideration in the context of ESG issues.
5. Investment mandate considerations – Portfolio managers deploy capital in flexible mandates that aim to deliver on our mission. This may also include additional ESG strategies to meet client requirements or the investment process of the Portfolio Manager.

Responsibilities:

The Portfolio Managers of each respective mandate are accountable for maintaining the commitments included in the Policy. Portfolio managers and investment analysts analyse ESG issues and integrate their findings into overall investment analysis and decisions, as well as handling engagement activities.

Implementation:

The implementation of our ESG integration strategy for Pender Liquid Alternative Funds is informed by third-party data vendors which provide high-level ESG controversies and relevant ESG issues.

ESG integration for Pender Liquid Alternative Funds is achieved through the consideration of these factors on the investments we hold in our Liquid Alternative Funds. Material governance, environmental and social factors are analyzed on a case-by-case basis. Consideration may also be given to how the evolution of ESG factors impacts cash flow, revenues, profitability, business operations, critical risk factors which could impact or prevent a merger from closing and the overall ESG profile of a particular investment. In addition, ESG factors beyond our investment horizon, along with how our holding period is influenced by ESG factors, may be addressed.

For some of our long-term holdings where we find ESG factors are relevant and material, a ranking (from 1 to 5) is assigned to the investment based on these overall considerations.

This may then be incorporated into an overall confidence adjustment for the investment based on these considerations and a variety of fundamental and operating factors. This overall confidence adjustment may be factored into the risk / return profile and relative attractiveness of the investment versus other holdings within the portfolio and therefore, may ultimately impact the investment's weighting within the portfolio.

Reporting:

- Pender's Responsible Investment Committee is led by a senior member of the investment team. The Committee meets quarterly to discuss relevant ESG related issues that impact our investment activities.
- We have established reporting cycles and policies to keep ourselves accountable. We are signatories of the UN PRI (United Nations Principles for Responsible Investment) at an organizational level and are therefore required to report on our responsible investment activities through the PRI Reporting Framework specific to Liquid Alternative Funds. This reporting is done annually.

Review of policy:

- ESG integration for our Liquid Alternative Fund mandates is achieved through the process outlined under "Implementation". Our assessment of ESG criteria in the Responsible Investment Policy specific to Liquid Alternative Funds will be reviewed on a biennial basis.

Legal and regulatory factors:

Pender is a British Columbia-incorporated company and therefore is subject to the laws of British Columbia and certain federal laws of Canada. Pender is registered as an Adviser in the category of Portfolio Manager ("PM"), an Investment Fund Manager ("IFM") and an Exempt Market Dealer ("EMD") in British Columbia, Alberta and Manitoba; an IFM in Newfoundland and Labrador, a PM, EMD and IFM in Ontario; and an EMD and IFM in Quebec, pursuant to the applicable provincial securities acts. Pender is governed by the provisions of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations ("NI 31-103").

The British Columbia Securities Commission ("BCSC") is Pender's principal regulator. Pender is subject to the British Columbia securities laws, including the Securities Act R.S.B.C. 1996 c.418 (the "Securities Act"), regulations and rules made under the Securities Act and the BC Rules or BC Instruments. Most of the BCSC's rules are harmonized with other Canadian securities regulators and are referred to as National Instruments ("NI") or Multilateral Instruments. For example, the Pender Mutual Funds are governed pursuant to NI 81-101 and NI 81-102, and the Pender prospectus-exempt Funds are governed pursuant to NI 45-106.

Fiduciary responsibility is the duty to act for the benefit of another party in matters coming within the scope of the relationship between them. A fiduciary must place this obligation first in all dealings and must avoid potential conflicts of interest with this obligation and other inappropriate conduct. This duty sets a high standard that exceeds that which may be

acceptable in many other business relationships. As fiduciaries, each Pender employee must strive to ensure that all Pender Funds and private clients of Pender are treated fairly. The CFA Institute Code of Ethics and Standards of Professional Conduct, as amended from time to time, is fundamental to Pender’s values and essential to ensure the fair treatment of the Pender Funds and private clients of Pender by setting high standards of education, integrity and professional excellence. High ethical standards are critical to our firm’s ongoing success. As such, Pender has adopted the CFA Code. Further details may be found in the Pender policies and procedures manual (“PPM”).

Appendix

The Seven Distinct Forms of Responsible and Ethical Investment

APPROACH	TRADITIONAL INVESTMENT	RESPONSIBLE & ETHICAL INVESTMENT						PHILANTHROPY	
		ESG Integration	Exclusionary/negative screening	Norms-based screening	Corporate engagement and shareholder action	Positive / best-in-class screening	Sustainability-themed investing		Impact investing
METHOD	Providing limited or no regard for environmental, social, governance and ethical factors in investment decision making	Explicitly including ESG risks and opportunities into financial analysis and investment decisions based on a systematic process and appropriate research sources	Excluding certain sectors, companies, countries or issuers based on activities considered not investable due principally to unacceptable downside risk or values mis-alignment	Screening of companies and issuers that do not meet minimum standards of business practice based on international norms and conventions; can include screening for involvement in controversies	Executing shareholder rights and fulfilling fiduciary duties to signal desired corporate behaviours - includes corporate engagement and filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines	Intentionally tilting a proportion of a portfolio towards solutions; or targeting companies or industries assessed to have better ESG performance relative to benchmarks or peers	Specifically targeting investment themes e.g. sustainable agriculture, green property, 'low carbon', Paris or SDG-aligned	Investing to achieve positive social and environmental impacts - requires measuring and reporting against these, demonstrating the intentionality of investor and underlying asset/ investee and (ideally) the investor contribution	Using grants to target positive social and environmental outcomes with no direct financial return
INTENTION	Avoids harm								
	Benefits stakeholders								
	Contributes to solutions								
FEATURES AND OUTCOMES	Delivers competitive financial returns								
	Manages ESG risks								
	Contributes to better system stability and economic sustainability								
	Pursues opportunities and creates real - economy outcomes								

Source: Responsible Investment Association Australasia (RIAA) Responsible Investment Spectrum.