

Closed End Fund Opportunity Team **ESG Policy Document**

As part of the Aberdeen Alternatives unit, the Closed End Fund Opportunity team applies the approach common to the unit as a whole, as follows.

Aberdeen Alternatives

Aberdeen's vision is to be recognised as a premier alternatives investment provider. Operating globally with offices in Europe, the USA, Asia, and Australia, Aberdeen's Alternatives offering provides Clients with specialist access to a range of alternative and pan-alternative investment solutions. Aberdeen believes that investing in alternatives can offer a range of benefits to investors, including greater confidence in being able to generate long-term growth, enhanced returns and reduced volatility.

Across the range of solutions provided for Clients – and the breadth of underlying investments made – Aberdeen believes that it is important to integrate an analysis of the risks (and potential opportunities) arising from Environmental, Social and Corporate Governance (“ESG”) issues. A key part of Aberdeen's philosophy is to focus on capturing long-term sustainable returns from high quality investments. These issues therefore form a natural component of proprietary fundamental research. As a long-term investor, Aberdeen also believes that it is important to be a constructive investor and owner of assets on an on-going basis. Aberdeen has been a signatory of the UN-linked Principles for Responsible Investment since 2007. The Group's public report is available on the PRI website:

<http://www.unpri.org/signatories/signatories/?country=UK>

To reflect the approach detailed above, Aberdeen Alternatives has adopted the following approach to responsible investment:

- Investment research incorporates the consideration of material ESG factors, so that investment teams can more accurately identify and understand all the risks and opportunities presented by a potential investment.
- When investing in new Funds, the due diligence process has evolved to include consideration of the underlying ESG risks and opportunities and how they are managed. This includes, for example, the way in which the third-party Fund Manager incorporates ESG issues into decision-making. Where applicable, Aberdeen would look to understand a Manager's specific ESG policy and the rigour with which it is applied, as well as the degree to which ESG issues are formally embedded in the process before and after investment and the approach to reporting on these aspects to Clients.
- Where assets are directly owned, or where Aberdeen is directly investing in a company, it seeks to understand the specific ESG risks and opportunities associated with that investment, how they are managed, and, where appropriate, how they are mitigated. Factors that are material to underlying holdings could include such topics as remuneration, corruption, climate change, human rights, and supply chain issues.
- Once invested, Aberdeen continues to engage with the underlying Fund Managers and direct holdings on these and other issues.

Closed End Fund Opportunities Team

Aberdeen's Closed End Fund Opportunities Team is part of Aberdeen Asset Management's Alternatives business, and focusses on investing in closed end funds (CEFs) listed on various exchanges around the world. The Team also invests in more traditional open ended / unit trust structures.

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The Team is committed to generating long term outperformance for clients from its various strategies and believes that this objective can be better achieved with ESG factors incorporated into its approach to business management and the investment processes it employs. To reflect this, the Team has embedded consideration of ESG factors into its investment processes as part of its approach to responsible investment.

Portfolio Investments

Corporate governance has been a key part of the Team's investment policy since its inception in 1998. Indeed, the Team's first fund was launched specifically to address poor governance in closed end funds, which had led to the emergence of significant discounts to net asset value of many such funds.

Manager selection is a core part of the Team's investment process, and ESG factors are taken into consideration during the manager research process so that the Team can accurately identify and understand the risks and opportunities presented by a potential investment. The Team's influence over stock-specific investment decisions in underlying funds is limited but, through its due diligence, the Team strives to:

- Understand each manager's investment policy, strategy, philosophy and process and the consistency of this with ESG factors
- Assess the extent to which ESG factors are directly considered and integrated in the manager's investment policy, strategy, philosophy and process
- Confirm that management companies actively apply corporate responsibility and ESG policies for their own businesses, as they expect from investee companies
- Encourage greater understanding of ESG factors and the role they have to play in delivering long term value

Once invested, the ESG credentials of underlying managers are actively monitored through regular manager interviews as well as an annual review of key ESG topics with core underlying investment managers. Managers receive a rating based on their response to a series of tailored questions. While investments are not automatically exited on the basis of their rating, a consistent low rating with no effort made on behalf of the manager to incorporate ESG in their activities will increase the likelihood of us withdrawing our investment, particularly if similar managers are available with superior ESG credentials. The team thus actively encourages improvements to be made over time.

With respect to closed end fund investments, additional consideration is given to a range of factors specific to that structure. This is done with the intention of encouraging closed end funds to be managed responsibly to the long term benefit of clients. In instances where governance issues arise, the Team will pursue an active (but not activist) and constructive approach to encourage improvements to the benefit of all shareholders. To reinforce its messages, the team votes actively at shareholder meetings. Topics on which the team engages regularly with boards and managers of closed end funds include:

- Board composition, independence and effectiveness
- Discount monitoring and controls
- Compensation structures and time-horizons for fund management staff, as well as overall costs
- Structural issues, including capital structure and the use of leverage
- Transparency and shareholder communications

On occasion the Team does make investments with material ESG risks (an example could be a deeply-discounted closed end fund with material governance issues, an open ended fund with investments in a frontier market that has a poor human rights record, or an emerging market fund with an investment in a company facing substantive allegations of involvement in corrupt practices). In these cases, our approach would be to (i) register our disappointment at the investment with the manager, (ii) seek to understand why, despite these apparent issues, they nevertheless considered the investment to be appropriate, (iii) engage with the manager on how they plan to resolve or mitigate the risk in question and (iv) monitor the progress of the manager's engagement on the subject. If, ultimately, the issue fails to be resolved, and dependent on the level of perceived risk, the Team would make the decision to sell the investment, assuming that to do so would not

be detrimental to the client in question. The Team at all times seeks to maximise returns for its clients, but always within appropriate risk parameters, taking appropriate account of responsible investment and governance concerns, and preserving our own and our clients' reputation and standing.