

## **SKY Harbor Policy Statement on Responsible Investing**

### **Overview**

Increasingly, environmental, social and governance (ESG) factors play a material role in identifying potential investment risks, and have been incorporated into investment processes to drive long-term returns. In 2006, the United Nations-backed Principles for Responsible Investment (PRI) was launched to formalize best practices in an effort to achieve a more sustainable global financial system.

As a signatory to the PRI, SKY Harbor Capital Management is committed to this mission, and our dedication is reflected across the firm's culture, investment process and business operations. After more than two decades of working in various investment organizations, SKY Harbor's founders built their new organization with a deep commitment to encouraging and embracing a culture based on core sustainability principles, reflecting environmental, social and governance considerations. From business management to employee engagement with community issues to operational systems, SKY Harbor seeks best practices, holistic solutions and smart resource utilization for our office, employees and our clients. We also incorporate this framework as investors, approaching our investment process and decision making with the same expectations and commitment, as consistent with our fiduciary responsibilities. We expect a more formal approach to responsible investing allows our team to better articulate and characterize credit risks as well as address client requests regarding ESG considerations more directly.

### **Integration and Incorporation**

From an investment perspective, SKY Harbor's process is designed to identify, value and manage specific High Yield market risks, which inherently includes ESG factors. As with traditional methods, the goal of ESG analysis is best characterized by systematic identification and monitoring to manage how these risks affect issuers and industries over time. Specifically, we look for sustainability and responsible behavior in the companies we invest in, and their ability and willingness to service debt obligations. Among other risks, ESG factors are incorporated in our fundamental credit analysis to assess, for example, environmental and product liabilities, employee training and retention, and corporate governance and legal risks. We recognize the potential for a high correlation between companies that manage ESG factors well and superior investment returns: companies that embark on sustainable and responsible business practices that promote diversity and inclusion, best practices in governance, responsible use of natural resources and moderate carbon emissions are companies best positioned for the future.

### **Engagement and Participation**

SKY Harbor's commitment to responsible investing extends outside our firm and our investment process through increasingly active engagement with company management and the broader investment industry. In assessing corporate credit worthiness, including material ESG-related risks, our engagement seeks transparency and additional disclosure where needed while also raising any concerns we may have with management related to such risks. We regularly interact with company management teams, through quarterly earnings calls, industry conferences, investor days, new issuance roadshows, and on an ad-hoc basis as needed. While distinct from the influence of asset ownership through equity investing, our engagement and influence on management teams as credit investors is ultimately reflected in our decisions to participate in new debt offerings, amend indenture and credit agreement covenants, and to exchange or restructure debts.

Beyond company managements, we seek to engage with service providers to enhance the existing suite of analytical tools and data available to us as fixed income investors. Our participation as a signatory with the recently launched PRI initiative, *Statement on ESG in Credit Ratings*, is a reflection of our common vision with other signatories to enhance systematic and transparent consideration of ESG factors in the assessment of credit worthiness. We believe that through our collaboration with the broader investment community, we are able to collectively deliver a strong and clear message on the importance of such issues within responsible investing.

## **Reporting**

We are committed to annual comprehensive reporting to the PRI on our progress specifically as it relates to implementing the six Principles. We are also committed to further reporting to meet our clients' needs and requirements.

## **Ongoing Commitment**

We believe ESG factors are an integral component of thorough credit analysis, and just as we seek best practices with other areas of the investment process, we are committed to ongoing training and education with respect to ESG data, tools and implementation strategies. We believe that the complexities of globalization and increasing attention to environmental, social and governance concerns on the part of investors and financial markets warrants this type of work and pushes us to strengthen our approach and contribute to the responsible investment community.