

**DDJ Capital Management, LLC**  
**Responsible Investment Policy**

Updated July 1, 2018

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**Introduction**

Since its inception in 1996, DDJ Capital Management, LLC (“DDJ”) has sought to generate attractive risk-adjusted returns for its clients by adhering to a value-oriented, bottom-up, fundamental investment philosophy. DDJ’s investment team has extensive experience investing in fixed income instruments issued by non-investment grade companies within the lower tier of the credit markets, in particular high yield bonds and bank loans.

DDJ believes that its clients have selected DDJ to manage their assets primarily to seek to maximize total return while minimizing risk, in each case in accordance with the desired investment strategy and any customized individual guidelines. In pursuing this objective, DDJ believes that it has a responsibility to take into account non-financial factors when allocating client assets to various investment opportunities. Accordingly, this Responsible Investment Policy outlines DDJ’s integration approach with respect to assessing environmental, social and governance (“ESG”) factors as an integral feature of DDJ’s underlying investment philosophy and process.

**DDJ Investment Philosophy and Process**

The DDJ research process is designed to generate investment ideas with compelling risk/return profiles across an entire client portfolio. In seeking to achieve this goal, DDJ attempts to identify companies that have a solid core business with sufficient enterprise value coverage and that generate sufficient free cash flow to service their fixed income debt obligations. Fundamental analysis is the cornerstone of DDJ's investment process. DDJ's investment approach creates a comprehensive analytical overview of a target company focused on its current and future business prospects. In conducting this analysis, DDJ may evaluate a company’s senior management, industry fundamentals, market share, pricing power, operating characteristics and historical and projected financial performance in an effort to identify the risk and rewards of a particular investment.

## **ESG Integration and Implementation**

DDJ integrates various ESG considerations, such as transparency in corporate governance, existence of an independent and experienced board of directors, a commitment to environmental protection, and a track record of product safety, into its investment research and portfolio construction process. More specifically, incorporated within its bottom-up fundamental analysis of each fixed income investment opportunity, DDJ endeavors to identify material ESG factors that may contribute to financial downside (in particular, significant event risks that can negatively affect an issuer's creditworthiness and therefore its ability to meet its ongoing fixed income principal and interest obligations), as well as to assess whether or not market pricing adequately reflects those risks with respect to any proposed investment. If the DDJ research analyst, in consultation with the portfolio manager, believes that an identified ESG-related factor will have a material positive or negative impact on the business that may disproportionately change the risk/reward profile of such investment, DDJ will factor that assessment into its investment decision-making process (and, accordingly, may not make such investment on behalf of its clients). DDJ believes that integrating ESG factors into its investment process in this manner allows for deeper insight into critical risk factors, including exogenous factors not typically exposed in a traditional business analysis model, ultimately resulting in sounder investment decisions on behalf of its clients.

To further enhance the quality of its ESG-related research, DDJ licenses third-party ESG data from a leading provider of such data for thousands of companies worldwide. Such information includes both industry-wide and company-specific research reports. In addition, the vendor provides ESG ratings for a broad list of corporate credit issuers, including many portfolio holdings of DDJ's clients.<sup>1</sup> DDJ's research team accesses such ESG ratings within DDJ's trade order and portfolio management system. Although DDJ does not use these ratings to strictly include or exclude an investment from client accounts, DDJ does instruct its analysts to incorporate such information in their fundamental research process in an effort to better understand the topical ESG-related factors as well as the relative value among both existing and prospective investment opportunities.

On a quarterly basis, the Investment Review Committee discusses ESG factors in connection with the top-down risk reports that are produced by the DDJ analytics team. Such review covers broad ESG topics, such as ESG coverage and ratings trends, or specific topics, such as carbon intensity and water usage.

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<sup>1</sup> Given the limited coverage of private high yield debt issuers, DDJ also undertakes to assign an internally generated ESG rating with respect to any material holdings that are not rated by the third party ESG research provider.

Going forward, DDJ intends to continue to further integrate responsible investment practices into its investment process as it deems appropriate.

### **ESG Exclusionary Screening**

Certain of DDJ's clients have themselves adopted socially responsible investing policies that incorporate thematic screens to exclude certain types of investments altogether (e.g., investments related to the tobacco or defense industries; investments in companies doing business in certain countries that may be subject to economic sanctions (i.e., Sudan, Iran); and investments in issuers contrary to the UN Convention on Cluster Munitions). In addition to DDJ's approach to responsible investing, where ESG considerations are integrated within the investment process itself, DDJ also implements these exclusionary screens prohibiting these types of investments on behalf of its clients' portfolios that maintain such requirements. To minimize the risk of an unwarranted or inadvertent investment contrary to such a client's mandate, DDJ programs its trade order and portfolio management system with pre-trade restrictions related to such prohibited investments.

### **Active Ownership**

Given the credit-oriented focus of DDJ's investment strategies, DDJ manages investments primarily in fixed income, rather than equity, securities. As a result, equity investments, in particular in public companies that annually disseminate proxy voting materials to their shareholders, typically constitute a very small percentage of the total assets managed by DDJ. Nonetheless, to address such circumstances, DDJ has adopted and implemented certain written proxy voting policies and procedures, which DDJ believes are reasonably designed to ensure that proxies are voted in the best interests of its clients. Accordingly, DDJ votes proxies based on its judgment as to what voting decision is most likely to maximize total return to the client as an investor in the issuer whose securities are being voted; with the exception of certain routine matters, DDJ generally reviews and makes a voting decision on each matter presented in such proxy on an individual, case-by-case basis. A complete summary of DDJ's written voting policies and procedures is available upon request. With respect to other corporate action events, including, for example, responding to debt exchanges, tender offers or consents, and bankruptcy claims, as well as voting with respect to an issuer's plan of reorganization, DDJ likewise exercises discretion that it deems appropriate and in the best interests of its clients. To the extent that DDJ identifies an ESG issue with respect to a particular portfolio company, it will factor such information into its decision when exercising a proxy vote consistent with its proxy voting policies and procedures or otherwise when responding to such corporate action events.

### **Engagement**

DDJ believes that issuer engagement as a debt holder tends to be more indirect when compared to that of an equity owner. While an equity owner can ultimately vote (and replace) the members of an issuer's board of directors, the opportunities to actively engage as a fixed income investor tend to occur around events such as new debt issuances and corporate restructurings. In such cases, depending on the size of the DDJ position relative to the total class of debt, DDJ may be able to exert some degree of influence over an issuer, particularly with respect to governance and reporting issues.

DDJ believes that adherence to strong governance principles is an important feature of the companies in which its clients invest. DDJ's active approach to fixed income investing generally includes frequent interaction with company management, as DDJ seeks to keep an open line of communication with respect to actions that could negatively impact the value of the investment that it has made on behalf of its clients. While DDJ does not always agree with the policies implemented by an issuer's management, DDJ believes that remaining active and engaged will typically result in more constructive, long-term relationships surrounding topical issues, including governance concerns. Such an approach ultimately benefits its clients. In the event that issuer engagement is not successful, and DDJ does not believe that it can advocate for practical change, divestment may be warranted, depending on the nature of the ESG factors and the corresponding effect on the investment's risk/reward profile. Since the inception of the firm, DDJ has actively engaged with management of its portfolio companies, and expects that it will make an effort to increase ESG engagement over time.

## **Reporting**

Effective March 29, 2016, DDJ became a signatory to the UN Principles for Responsible Investment (UNPRI). In becoming a signatory, DDJ agreed to:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be an active owner and incorporate ESG issues into ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which DDJ clients invest;
- Promote acceptance and implementation of the UNPRI within the investment industry;
- Work together to enhance our effectiveness in implementing the UNPRI; and
- Report activities and progress toward implementing the UNPRI.

As part of DDJ's commitment as a signatory, DDJ reports its ESG activities to the UNPRI on a comprehensive basis. A copy of DDJ's most recent Transparency Report with

respect to such ESG activities in 2018 is publicly available both on the UNPRI website, [www.unpri.org](http://www.unpri.org), and on DDJ's website, [www.ddjcap.com](http://www.ddjcap.com). Furthermore, upon request, DDJ also provides its clients with customized ESG reporting, which typically include the ESG ratings of positions, segments of the portfolio and the portfolio as a whole.

### **Approval, Administration and Review of Responsible Investment Policy**

The DDJ management operating committee is responsible for approving this Responsible Investment Policy as well as any updates made from time to time. DDJ's investment review committee, which includes the firm's chief investment officer and other senior investment team leaders, is responsible for the administration of this policy (including, without limitation, its incorporation into DDJ's ongoing investment process). On an annual basis or more frequently as deemed appropriate in its discretion, DDJ (including, without limitation, its chief compliance officer) will review the substance and implementation of this policy.

Any questions regarding this Responsible Investment Policy can be directed to Joshua McCarthy, general counsel and chief compliance officer of DDJ.