External Manager ESG Policy

Purpose

Riverwater Partners believes Responsible Investment is in the best interest of our clients, our firm, our communities, and our society. Therefore, we integrate Environmental, Social, and Governance (ESG) policies, practices, and outcomes, alongside more traditional investment criteria, when we evaluate potential external investment managers. We are long-term investors; therefore, we believe it is imperative to consider the long-term risks and opportunities which Environmental, Social, and Governance issues may present to the strategies in which we invest.

Many believe one must sacrifice financial gain to achieve real economic gain; however, history has shown that companies that incorporate ESG policies and practices into running their businesses generate superior returns versus companies that do not. These better business practices generally result in meaningful financial gain in the form of increased revenue (as customers want to support the efforts) and/or decreased expenses (due to lower energy consumption, for example) or potential liability or reputation risk, resulting in superior returns over the long term. The fact that sustainable business practices have been shown to result in superior financial returns over time, often with lower volatility, allows Riverwater to uphold its fiduciary duty to clients by incorporating a sustainability lens into its investment process and selecting managers that look to identify these same opportunities.

Riverwater Partners seeks ESG products that best fit a particular client's needs. We tend to focus on external managers that have heavily integrated ESG into the research and investment decision making process, robust reporting, and strong proxy voting and engagement records. While many critics of ESG state that one cannot consistently outperform the market and utilize ESG in the investment process, the data has shown the two need not be mutually exclusive. We actively monitor and research strategies where we believe the manager's ESG Integration can aid these managers in achieving favorable or, at the very least, market level returns over longer time frames. In various asset classes where there may be limited high quality investment offerings with deeply integrated ESG processes, we may select managers that will meet Riverwater's investment criteria for external manager selection but may not have as robust of ESG integration.

Riverwater Partners publicly reports on its Sustainable Investment practice and outcomes in its annual Sustainability Report and in its Proxy Voting outcomes.

RIVERWATER SELECT LIST

The Riverwater Select List is a list of approved managers that have completed a rigorous due diligence process and in whom Riverwater believes are most capable of potentially outperforming the market over a full market cycle. In addition to investment due diligence, Riverwater also evaluates the level of ESG Integration for each external manager on the Riverwater Select List. These are the first investments we use to populate client portfolios.

DUE DILIGENCE FOR ESG INTEGRATION ON RIVERWATER SELECT LIST

Given the amount of inconsistency with ESG disclosures, ESG score providers, and ESG rankings, we believe a rigorous qualitative approach is the most effective way of identifying strong ESG integrated funds. While the proliferation of these data providers and ESG scoring methodologies have undoubtedly furthered the recognition of ESG investing globally, we remain wary of greenwashing given the increased ability to minimally incorporate ESG into the investment process. It is this skepticism of greenwashing that motivates us to do our own qualitative due diligence to identify the true ESG and sustainable managers.

There are varying levels of ESG integration that external managers can utilize within their approach to ESG. Each level corresponds with different levels of necessary due diligence and inherent risks. The spectrum can range from pure philanthropic/charitable giving to investing in products that have no ESG aspect within their process.

The first step in our external manager due diligence process is to identify the level of ESG integration and assign labels for each product based on our classifications: Philanthropic and Impact First Investing, Impact Investment, ESG Focused, ESG Integrated, or None. In most circumstances, products with the classification of NONE, meaning they do not utilize any type of ESG criteria in their investment process, will be excluded from the Riverwater Select List. Exception can be made for certain asset classes where incorporation of ESG criteria is prohibitive to executing a type of strategy.

ESG INTEGRATION LEVELS FOR INVESTMENT MANAGERS

1. **Philanthropic and Impact First Investing** – Philanthropic/charitable giving is a donation of assets to support a particular environmental and/or social cause with no intention of earning a return. Impact First investing is similar to philanthropic

investing where the main goal of the investment is to promote a certain social or environmental cause, however, investors do expect some return, though the expected return is usually below the standard market return. These investments tend to be directed toward a particular cause in which the investor is passionate.

2. **Impact Investing** – Impact Investing are investments in public or private entities with a specific intention of generating social and/or environmental impact alongside a market or better financial return. Most impact investments focus on a single or a few related UN PRI Sustainable Development Goals or impact themes and are commonly managed directly in fixed income strategies or private equity funds. These strategies tend to be more concentrated, often thematic in nature, and will have very measurable ESG related outcomes.

3. **ESG Focused Investing** – ESG Focused investing integrates environmental, social, and governance factors intricately into the investment process. These strategies typically have robust engagement efforts, proxy voting policies, and unique processes built around the identification of relevant ESG data and factors and utilize these ESG factors heavily in making their investment decisions. They usually have a "best in class" approach or focus on companies where engagement can lead to significant improvement in various ESG metrics. ESG Focused strategies tend to be well diversified and emphasize many of the UN PRI Sustainable Development Goals. As a part of their ongoing engagement and reporting efforts they have very strong stewardship policies and have an emphasis on promoting measurable ESG outcomes.

4. **ESG Integrated Investing** – ESG Integrated strategies use ESG factors as a component to the investment process, but these factors do not have as large of an influence throughout the research and portfolio construction processes as ESG Focused strategies. Oftentimes these strategies utilize "exclusionary only" approaches or a scoring methodology based on publicly available ESG Scoring systems. These strategies tend to have less robust engagement and proxy voting policies and are not as focused on the ESG outcomes of their investments. ESG Integrated strategies are well diversified and will target many of the UN PRI Sustainable Development Goals. This type of strategy is the most common and proper due diligence is key to identify potential "greenwashing".

5. **Traditional Investing (None)** – Traditional investing consists of broadly diversified equity, fixed income, and alternative strategies that do not utilize any type of ESG

criteria in their investment process. These strategies will use traditional investment characteristics to identify potential investment candidates. The main driver of the investment decision making process is opportunity for financial return.

To assign our ESG Integration label, we assess the managers' commitment to ESG by considering the following factors:

- Whether the product has a mandated ESG policy
- Manager's ESG definition and philosophy
- Firmwide policy and commitment to ESG
- Product-specific ESG policy
- Various ESG rankings (i.e., Morningstar Globes, Sustainalytics, MSCI, etc.)
- Use of exclusionary screens
- Incorporation of ESG criteria into investment analysis and decision making
- Portfolio holdings alignment with the ESG philosophy
- Identification of "gray" areas that don't fit within stated policies
- Resources committed to ESG research
- Disclosure, tracking, and reporting ability
- Engagement policies
- Proxy voting policies

Ongoing Monitoring and Tracking of External Manager ESG Efforts

As part of our ongoing commitment to ESG, Riverwater reviews the ESG processes for each manager on the Riverwater Select List on an annual basis. We perform this review through an ESG due diligence questionnaire sent to each manager in which we request information on various aspects of their ESG integration.

The Riverwater ESG Due Diligence Questionnaire Covers:

- Integration of ESG into the investment process
- Updates on ESG resources within the firm
- Engagement Policies
- Proxy Voting Policies
- Public Policy Advocacy
- Tracking of ESG related activities
- Key progress toward improvement on sustainability outcomes

In addition to the annual questionnaire sent to managers, Riverwater also tracks various quantitative scores and metrics that measure a particular product's ESG scores. A significant deterioration in these metrics may prompt interviews with the respective managers.

- Minimum Sustainalytics Score
- Morningstar Sustainability Score (Globes)
- Morningstar ESG Ratings