POLUNIN
CAPITAL PARTNERS

STEWARDSHIP CODE ANNUAL REPORT & SRD II

PRINCIPLE 1

Signatories´ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Polunin Capital Partners Ltd ('PCPL', 'the Firm') manages assets for a range of professional clients including pension funds, endowments and commingled investment funds. The Firm invests in Emerging Market and Frontier Market equity securities. Investments in UK and European equity securities (which derive the majority of their revenues from, or have significant investments in, Emerging or Frontier Markets) form a small part of the Firm´s investment universe.

The Firm´s guiding principle in undertaking stock selection is the objective of maximising the long-term economic value of clients´ holdings. PCPL´s investment process is bottom-up and focused on the fundamental value of a company using industry valuation techniques. Our valuation methodology is based on replacement cost of assets in a common currency (e.g. USD), and we only consider companies with the lowest valuations relative to replacement costs in each sector, with strong or improving balance sheets and the most favourable sector outlooks for investment.

PCPL believes responsible investment can make a significant contribution to our fiduciary duty to our clients. Issues such as equality, sustainable development, and climate change affect not only societies, but potentially the long-term performance of companies, and outcomes for financial assets. The Firm´s philosophy is to focus on operational changes with improvements in ESG factors to act as catalysts to share price performance.

Since 2019, Internal ESG scoring has been incorporated for all portfolio companies. This is carried outby the investment team as part of the research process. Our scoring process assesses a company on a wide range of ESG issues - from climate change to human rights and diversity, which are mapped to the United Nations Sustainable Development Goals ('UN SDGs'), and are incorporated into investment analysis and active ownership when they are material. The focus is to understand current and future risks and opportunities of a company, and how they affect a company´s potential to reach fair value.

We became a signatory of the United Nations-supported Principles for Responsible Investment('UNPRI') in Dec 2020, and fully revised our Responsible Investment, Climate Change, Proxy Voting, and Exclusion Policies in early 2021, to demonstrate our commitment to investing responsibly. Since then we have published our proxy voting on a quarterly basis, and our engagement report is issued semi-annually. The format was created after feedback from clients -on their requirements on stewardship reporting. We encourage client feedback on our approach to reporting on ESG and Stewardship matters, and will review and update related policies and procedures as and when necessary but at least on an annual basis.

PRINCIPLE 2

Signatories´ governance, resources and incentives support stewardship.

Our responsible investment methodology, policy and reporting are overseen by the ESG &Sanctions Screening ('ESGSS') Committee, which is chaired by our CEO, with our Board of Directors taking ultimate responsibility for the application of these policies into the investment process and portfolio construction. At its inception, the ESG Committee (as was) met on a quarterly basis. However during 2021, as the number of ESG topics and sanctions matters grew rapidly, the remit of the Committee expanded to include the sanctions regime, and the frequency of its meetings increased to monthly in order to enable more effective decision making and action.

All members of the investment team receive training on responsible investment semi-annually. This training includes the reporting framework; outcome identification and assessment; and engagement approach and best practice. Investment professionals are responsible for the ESG scoring of their sector and company coverage, and for leading engagement with companies. Portfolio companies´ ESG scores are reviewed annually. In late 2021 we updated the internals coring methodology to incorporate Climate Action 100+ initiative (´CA100+´) Net Zero Benchmark disclosure indicators, and elements are mapped to the UN SDGs.

One analyst now has 50% of their time dedicated to ESG activity, and we are in the process of allocating additional resources in anticipation of the increasing amount of stewardship and engagement reporting -- in response to client expectations -- and also to increase transparency in our ESG activity.

We use ISS as a third party data provider on climate and screening, and as we improve our stewardship activity and physical climate risk analysis we may add further resources.

PRINCIPLE 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

PCPL is a privately owned company in which the majority of staff own an equity interest and in which the original Founders and majority shareholders are closely involved in day-to-day management. PCPL recognises the importance of managing potential conflicts of interest on behalf of its clients when voting their shares and engaging with investee companies. PCPL will consider all potential conflicts of interest that it identifies, or which are brought to its attention, and will determine if a material conflict of interest exists. Our principal objectives when considering matters such as engagement and voting are always to act in the best interests of our clients and to treat them fairly.

The Firm´s Compliance team and Board review potential and actual conflicts of interest on a quarterly basis. While there were no actual Conflicts of Interest identified in 2021, the Compliance team has highlighted potential conflicts arising from the Chief Investment Officer´s personal holdings in two of the Firm´s investment products. We continue to monitor and manage carefully any potential conflicts of interest arising from senior management and client investors´ overlapping investment. Aside from measures to mitigate the risk of single-person bias in trading and investment activity, any potential conflicts with other shareholders on proxy voting matters are mitigated by the Compliance team having full control of the proxy voting submission process.

The review of conflicts of interest is dynamic, with the Compliance team raising any perceived issues with senior management at the Firm whenever they arise; and in any case at the Firm´s regular quarterly Board meetings.

Policies and procedures relating to Conflicts of Interest are available on the Firm´s website.

PRINCIPLE 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

PCPL´s investment methodology is bottom-up and focused on the fundamental value of a company using industry valuation techniques. There is no formal integration of macro-economic and geopolitical analysis in this process.

However, as the valuation comparison of companies across emerging markets uses the US Dollar as a common currency, macro risks and events can be captured through changes in FX rates and their effect on the relative valuation. By example, a company´s valuation relative to its peers will become more expensive if its local currency strengthens appreciably against the US Dollar (which will in turn be a function of top-down economic or political factors).

The possibility of political or social instability or diplomatic developments could affect investment in certain countries. There are also varying levels of government supervision and regulation of exchanges, financial institutions and issuers in various countries. In addition, the way foreign investors may invest in securities in certain countries, as well as limitations on such investments, may increase the volatility and risk of loss to investments.

Emerging markets typically have greater exposure to sustainability risks than developed markets. Climate change management is at an early stage in emerging markets, most countries are at the beginning of establishing targets and action plans to reduce environmental impact, and government implementation and enforcement of policies to limit climate impacts are often lacking or non-existent. Climate impacts may include greenhouse gas emissions and climate change, water stress, biodiversity and deforestation, emissions and waste both toxic and non-hazardous, and environmental management in the supply chain. Governance risks may be more pronounced in emerging markets owing to less developed corporate governance frameworks, and a lack of legal protection or redress for stakeholders and minority shareholders. Countries in emerging markets often lag developed markets in respect of labour and human rights practices, child labour, equal opportunity and pay, freedom of association, sexual harassment, occupational health and safety, code of ethics and conduct, confidentiality for whistle-blowers, anti-bribery and corruption, and supplier monitoring in respect of the aforementioned practices. There can be gaps in consumer rights and protection, including product quality assurances, prevention of misspelling, monitoring inappropriate online content and behaviour, and consumer data protection, privacy and cybersecurity. Listed companies in emerging markets are often subject to less extensive sustainability-related reporting requirements making it challenging for the Firm and external providers to identify and assess the materiality of inherent sustainability risks. The assessment of sustainability risks of investees is carried out on a bi-annual basis, the results of which are summarised and reviewed by the ESGSS Committee, to integrate into the investment decision-making, and monitor potential or actual material risk to long-term risk-adjusted returns.

During 2021 as the scale and pace of change in the sanctions regime, trade tensions and government regulations has risen, a more robust approach is felt to be required, and sanctions and ESG screens are now run on a monthly basis, with findings reviewed by the ESGSS Committee. Any proposals for action are communicated to the rest of the Firm, which will include ensuring that newly sanctioned entities are adequately restricted in the Firm's trading system.

PRINCIPLE 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

The Firm's ESGSS Committee increased the frequency of its scheduled meetings from semi-annually to monthly from 2021. This allowed for timely review of updates from the monthly sanctions screening, as well as greater responsiveness to outcomes from norms-based and exclusionary screening. Engagement with companies on ESG and proxy voting matters, including collaborative efforts with other investors, are also discussed at the meetings.

The ESGSS Committee has also increased its number of members to seven, and regularly invites others to attend and contribute -- a reflection of the scale and reach that ESG, stewardship and sanctions screening now has within the Firm's activities.

The Firm's stewardship policies are reviewed at least annually by the ESGSS, and verified by an external third party, Share Action, to ensure that they are fair and balanced.

Stewardship reporting (quarterly proxy voting reports and semi-annual engagement reports) are reviewed by the ESGSS Committee.

PRINCIPLE 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

PCPL manages assets for a range of professional clients including pension funds, endowments and comingled investment funds. All the Firm's investment strategies share the same deep-value investment methodology and process, which is best suited to a medium- to long-term investment horizon. The process requires investment analysts to engage regularly with the companies they are responsible for valuing. This has allowed the firm to develop an ESG questionnaire framework which its analysts have adopted as part of their regular reviews of investee companies. In this way, the Firm intends to build its knowledge of how key ESG factors are addressed by companies, and overtime both monitor their progress and development in this area, and engage with them on specific issues.

During the past year, a number of the Firm's clients have sought more detailed information on how often the Firm has voted proxies, and the rationale for voting decisions; specifically in those cases where the Firm has voted 'Against' management resolutions. In order to offer a response to these growing client requests, and meet its stewardship obligations to provide greater transparency around proxy voting activities, the Firm initiated quarterly reporting on its website. The reports are published in two sections: the first shows a summary of the number of meetings and resolutions voted during the preceding quarter, plus additional metrics including the number and proportion of votes cast 'Against' or 'Abstain'. The second section provides detail on the those votes that were cast 'Against' or 'Abstain', including company names, the resolutions of concern, how we voted, and the reason for the voting decision. This section also shows whether we communicated our voting intentions to the company ahead of the vote, and what the eventual overall outcome of the vote was.

One separate account client that does not permit the Firm to vote proxies on its behalf, nevertheless communicates with the Firm on an ad hoc but regular basis to seek review of its own proxy voting decisions which are based on ISS recommendations. As the client's portfolio is aligned with the Firm's core Developing Countries strategy, the Firm is able to provide voting recommendations on the stocks held in common.

In addition to the quarterly proxy voting reports, the Firm has begun publishing an Engagement report on a semi-annual basis which describes the types and focus of engagement activity undertaken.

PRINCIPLE 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

With reference to the UN SDGs, and through our internal ESG scoring process, engagement with companies, and discussions with clients, we have identified the following sustainability outcome objectives:

- Encourage companies to report in accordance with the Task Force on Climate-Related Disclosures ('TCFD') framework, including setting a Science Based Target, conducting scenario analysis;
- Consider physical risk factors and adaptation measures;
- Endorse adaptation strategy to lower water consumption;
- Coal dependency phase out plan by 2040 at the latest, 2030 in OECD;
- Transparency on pay equality;
- Incorporate policies to address diversity and advancement to senior management positions;
- Transparency on measures that show oversight on labour and human rights at the company, as well as suppliers and contractors levels.

Regarding climate engagement, we became a supporter of TCFD in April, and as a signatory of UNPRI and a participant of CA100+, we have participated in collective engagement with Korea Electric Power Corp. ('KEPCO'), South Korea's largest power company, on their decarbonising efforts.

In 2021 we commenced engagement with Banpu in Thailand, and PGE and Tauron in Poland as part of the 3-year engagement process with coal-related investees on their commitment to a Coal Exit strategy.

As an investor signatory to Workforce Disclosure Initiative ('WDI'), conducted by Share Action --an annual survey and engagement programme to provide data on workforce practices -- we have gained practical insights on how to identify and address workforce issues, a pressing but under-addressed area in emerging markets.

On behalf of an asset owner, we investigated 2 mine effluent-related pollution cases involving Jiangxi Copper in China. We examined the investigation and NGO reports, and found that remedial actions and compensation were reported and verified by third parties. The company had also published subsequent inspection results, improvements in wastewater recycling through investments, and rolled out Environmental Impact Assessment over mine life cycle. Whilst this is not a tailing dam-related issue, we have found no global standards on effluent concentrations, beyond World Bank Environmental, Health, and Safety guidelines, and WHO guidelines on natural water and drinking water.

PRINCIPLE 8

Signatories monitor and hold to account managers and/or service providers.

The Firm does not engage proxy advisors at the present time. This has stemmed from our small midcap emerging market focus, where we believe service provision is typically limited in coverage or depth of knowledge.

In the year under review the firm has continued to research its own proxy voting recommendations. This approach has worked well in Asian markets, where the level of disclosure is generally good enough for our investment team to make an informed decision. However in markets with poor disclosure we are now assessing whether service providers could add value.

Also as we review our voting records over the year, there have been inconsistencies in voting decisions across geographies, which we will work to harmonise in a revised set of voting guidelines.

PRINCIPLE 9

Signatories engage with issuers to maintain or enhance the value of assets.

Regular company meetings with investee companies are an important part of the Firm´s investment philosophy and provide the opportunity to discuss issues that affect corporate value with their senior management. The Firm´s approach to monitoring investee companies forms part of its overall stewardship responsibilities.

In the past year, the Firm has introduced a responsible investing component to the range of questions investment analysts ask of investee companies with a view to scoring them on ESG factors. The analysts now work with portfolio companies to improve how they manage or disclose ESG performance or issues, as identified in the internal scoring and screening processes, or in response to events or queries. As the investment team carries out engagement activity directly, we can combine the monitoring of ESG risks with our nuanced understanding of companies´ operations and sector issues. Our stewardship related engagement is carried out by the investment team directly, a record of which is maintained internally and regularly reviewed by the ESGSS Committee.

Through 2021, we engaged with one of our holdings, CEMIG, whose subsidiaries had been involved in a hydropower dam project in Brazil that had failed to secure the rights of local indigenous communities as well as jeopardised the biodiversity of the area. We liaised with the ISS and requested the company to provide evidence of remediation and environmental licenses, to ascertain whether the verified breach of the UN Global Compact had been resolved. Following communication the company provided the relevant paperwork to the ISS and key stakeholders which resolved the issue and changed their status from Red to Amber in the ISS norms-based screen, henceforth removing CEMIG from our restricted list.

One engagement that failed to yield adequate remediation measures and where we took action to divest, is outlined under our response to Principle 11 below.

PRINCIPLE 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

The Firm does not routinely attend investee companies' General Meetings or file shareholder resolutions, but rather engages on issues of concern directly with the company, as we believe such an approach is better suited to the Firm's investment methodology and its portfolio of smaller capitalisation Emerging Markets companies. However, in some circumstances, particularly with larger companies, collaboration with other investors may be the most productive way to engage. This could be in situations where independent escalation has not produced a desirable outcome or during times of significant corporate or economic stress.

As a Firm we believe there is strength in numbers when it comes to engaging with our holdings on certain topics, for this reason we have chosen to join several collaborative engagement organisations.

In 2021 the Firm became a signatory to the UNPRI and the CA100+, and published support for TCFD and the Paris Agreement on climate change. We also became a member of the WDI. As a participant of CA100+, we have engaged with KEPCO to address their commitment to their carbon neutrality goals. Despite their declaration in October 2020 of no new coal-fired projects overseas, Indonesian and Vietnamese coal-fired projects have gone ahead without any conversion plans. In October 2021 we and a group of investors escalated the issue and wrote a public letter to the South Korean Presidential Committee of Carbon Neutrality, urging for more ambitious decarbonisation. Following the development of national plans by the Committee, KEPCO announced commitment to carbon neutrality and phase out of coal by 2050, and in December2021 the "KEPCO Carbon Neutrality Promotion Committee" was launched. It was a major step after years of engagement by many investors, though much work was still needed on a clear capital expenditure plan to transition.

The WDI aims to increase transparency around workforce practices by encouraging companies to report data on topics such as decent work and human rights. We have actively engaged with our holdings, as we believe the need for emerging markets corporates to align their workforce practices to international standards will only become more pressing over time; therefore in our view it is important for corporates to evidence the efforts made. Currently, most investees are studying the reporting requirements and comparing the WDI with other reporting frameworks.

PRINCIPLE 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

The Firm undertakes a 3-year process of engagement, with escalation after 18 months at the latest. This may include publicly engagement with the board, withholding support on standard governance-related resolutions (such as director re-elections or approving the reports and accounts) or by filing or co-filing shareholder resolutions. If remediation remains inadequate or ineffective after the engagement process, the Firm will seek to divest its holdings.

As part of our monitoring of ESG risks we compile a restricted list of companies with verified breaches of the global norms or verified involvement in controversial weapons. In 2021 we found four portfolio holdings with alleged breaches. This triggered a 6-month engagement process to verify prior to divestment.

One of those holdings, Elsewedy, is an Egyptian contractor involved in a Tanzanian Hydropower project expected to impact the neighbouring UNESCO World Heritage site, the Selous Game Reserve. Following an initial meeting with the company to request the disclosure of the remediation measures being undertaken to mitigate the environmental impact of the project, Elsewedy requested that we sign a non-disclosure agreement ('NDA') before providing us with a remediation report. Given the limitations imposed by an NDA, the offer of information was not felt by the Firm's ESGSS Committee to be equal and open and such was treated as non-disclosure. This triggered divestment of the position to comply with our policies.

PRINCIPLE 12

Signatories actively exercise their rights and responsibilities

The Firm aims to vote all proxies on behalf of clients that permit it to do so. We do not use the service of proxy advisors, but on request we will discuss with clients the rationale of our decisions when they differ from those of proxy advisors. In order to demonstrate publicly its commitment to stewardship, the Firm has this year begun to publish on its website quarterly data on its proxy voting activities.

In 2021, we voted 100% of the eligible 3531 resolutions in 385 meetings, of which 14.4% were voted either Abstain or Against. Most proposals we voted against relate to governance, financing or transactions that could potentially damage shareholders' value. In total, we voted Against or Abstain in 115 resolution pertaining to the aforementioned issues.

In March 2021, Park Chul-whan, Senior Vice President and the largest individual shareholder of Kumho Petrochemical in Korea, submitted a shareholder proposal to increase dividend, separate the roles of Chair and CEO, set up compensation and internal transaction committees, and for him and his 2 candidates to join the board. Mr Park is a son of the late Chairman, and nephew of the current Chairman. He opposed the acquisition of Kumho Resort by Kumho Petrochemical, and the high level of treasury shareholding. Current Chairman was convicted of embezzlement and breach of trust in 2014. We voted for the shareholder proposal, which was defeated in the AGM.

In October 2021, we voted against the directors proposed by the Chairman of Namyang Diary in Korea, who in May offered to resign after claims that its yogurt drink Bulgaris prevented Covid infection, and the Managing Director, his eldest son, was dismissed for misusing the company's funds for personal expenses. The Chairman agreed to sell the controlling stake to the buyout firm Hahn & Co, but rescinded the deal shortly after, leading to Hahn & Co. filing for an injunction in August. The Chairman failed to resign, the eldest son the Managing Director was reinstated after a month, and the youngest son was promoted. The Court granted an injunction by Hahn & Co. to block the voting rights of the controlling family in the EGM, and all the candidates were voted down.

Our proxy voting policy and voting records can be found on www.polunin.co.uk/#stewardship