Sectoral Asset Management ESG Policy

Purpose:

The purpose of this policy is to formalize the key principles that underpin the commitment made by Sectoral Asset Management (Sectoral) to responsible investing and to provide a framework for honouring that commitment.

Scope:

This policy applies to all public equity funds managed by Sectoral Asset Management across all markets in which we invest. Responsibility for its implementation rests with members of the public equity team and is managed by Paulina Niewiadomska, CFA, Senior Analyst with oversight by Sectoral's Head of Public Equities, Marco Cianflone, CFA.

Approach:

Since its founding in October 2000, Sectoral has focused exclusively on healthcare investments. Our investment philosophy is grounded in the belief that financial performance can go hand in hand with driving lasting benefits for society through improved health and well-being. All of our public equity portfolios aim to achieve positive societal impact by investing at least 80% of assets in companies that are tackling unmet medical needs and improving the health and wellbeing of people.

Sectoral believes in the importance of responsible investing and integrating ESG factors in our fundamental analysis of healthcare stocks. We aim to identify, monitor, and mitigate ESG risks and opportunities that are, or could become, material to the long-term performance of companies in the healthcare sector.

We take an engaged ownership approach towards ESG issues and continue to refine our responsible investment policies. Our current framework is designed around:

- **Integration of sustainability criteria** into our research, analysis, and investment process.
- **Constructive dialogue** with company executives with the goal of improving ESG practices and disclosure.
- Companies **must meet our minimum standards to be eligible for investment** – we exclude worst offenders based on high ESG Controversy scores from Sustainalytics.
- Investments in **controversial industries such as tobacco, controversial weapons or coal-based industries are excluded**, as Sectoral invests exclusively in listed stocks of companies in the healthcare sector
- **Active ownership** through the exercise of our clients' voting rights in accordance with our Proxy Voting Policy

Through this approach we aim to improve ESG practices that are material to long-term sustainable value creation of companies in our portfolio holdings.

Integration of ESG into the Investment Process:

We aim to achieve a positive societal impact by investing mainly in companies supporting the health and well-being of people. We believe that proper disclosure and consideration of ESG risks and opportunities regarding the companies in which we invest can help to enhance the long-term performance of our investments. Sectoral's investment process takes ESG factors into account; particularly those that could have a material impact on either investment risk or return.

- In writing company initiation reports, a covering analyst considers the materiality of any ESG issues identified (lapses in good governance practices, lack of/inadequate environmental or social policies/practices, recent media reports of failures in ESG) and integrates them in the overall analysis alongside other potential sources of financial risk for the company.

- We use a leading ESG ratings provider (Sustainalytics) to help guide our analysis of the ESG factors pertinent to the healthcare companies in our investment universe. Sustainalytics ESG Risk Ratings and Controversy Scores provide a risk signal and deeper insights into the materiality of ESG issues as well as the company's efforts to manage their ESG risks effectively.

- We have identified the following to be key ESG factors that can have material impact on the performance of companies in the healthcare sector:

    - **Environmental:** Energy consumption, carbon footprint, water intensity and pollution
    - **Social:** Product quality and safety (track record of warning letters and market recalls), access to medicine (including in developing countries) and affordability, data privacy and protection, patient diversity in clinical trials, and innovative R&D (the ability to deliver meaningful health and quality of life improvements)
    - **Governance**: CEO and Chairman separation, litigation conduct/history, marketing practices/bribery and management of legal and regulatory environment

Sustainalytics Methodology:

Controversy Score:

Identifies incidents and events with negative impact on the environment and society or that can pose serious business risks to the company's operations. Events are identified through monitoring of news sources and scored on a scale of 1-5, reflecting the reputational risk to the company and potential negative ESG impact.

- Individual incidents such as lawsuits or products withdrawals are classified into topical areas and scored separately. High frequency of incidents indicates poor management and elevated risk
- Provides an assessment of how the controversy is likely to evolve over the next 12 months based on risk factors and management systems in place

ESG Risk Rating:

Measures a company's exposure to material industry-specific ESG risks as well as how well those risks are being managed. Risk is scored on a scale of 1-100, and companies categorized into different categories: Negligible, Low, Medium, High or Severe

- ESG Risk exposure is measured against industry peers and the global universe, allowing for best-in-class analysis on a subindustry level, based on percentile rankings
- ESG Risk management is assessed based on the company's published sustainability programs and policies. This can lead to unfavourable risk ratings for smaller cap companies that have not developed explicit policies or published Corporate Social Responsibility (CSR) reports

Direct Engagement:

Sectoral's portfolio managers and analysts meet with the healthcare companies in which we invest on an ongoing basis and discuss risks and opportunities relating to ESG factors. We engage more specifically with companies on ESG-related issues when they have been identified as potentially material to an investment. We also engage with portfolio companies that score in the bottom 20% on Sustainalytics ESG risk ratings within their peer group. In many cases, given the low level of ESG policy disclosure, particularly among the small and mid-cap companies in our investment universe, we encourage improvement and better disclosure of ESG practices and risk mitigation efforts. Engagement allows us to better understand our investee companies, their governance structures, and their approach to ESG issues and ESG risk management. This allows us to make more informed voting and investment decisions.

Active Ownership through Proxy Voting:

Proxy voting is an important component of active ownership. Consistent with our responsibility as an investment fund manager, we have established policies and procedures regarding the voting of proxies received by our funds. Proxy circulars, together with available proxy research, are reviewed in advance of each relevant meeting date. We use Sustainability Proxy Guidelines from ISS Shareholder Services as a guide for our proxy-voting decisions and strive to vote consistently in the best interests of shareholders and stakeholders. Non-routine proposals, including those involving ESG-related issues, may be given special attention and are reviewed in detail within the context of our Proxy Voting Policy.

Investment Restrictions:

We believe that active engagement is preferable to screening stocks for exclusion based on ESG Risk rating scores. Many companies, particularly in the small and mid-cap healthcare universe, would be ineligible for consideration for investment based on ESG Risk ratings due to limited disclosure practices. However, we regularly monitor the ESG risk profile of all our portfolios. We also maintain and update, at least quarterly, a watchlist of companies that score in the bottom 20% on Sustainalytics ESG Risk ratings within their investment peer group. Any investment in companies from this watchlist is reviewed on a case-by-case basis and is contingent on a concerted ESG engagement effort with the management in question. We commit to having no more than 10% exposure at any time to companies from the watchlist and to divesting positions whose ESG risk rating scores do not improve despite our engagement efforts within a 24-month timeframe.

Additionally, we restrict investment in companies that have demonstrated serious and ongoing lapses in ESG risk mitigation, as evidenced by Sustainalytics Controversy scores of 5. Proposed investment in companies with a Sustainalytics Controversy score of 4 require a written justification by the covering analyst and approval by the investment committee.

Implementation and Review:

The implementation of this policy is managed by Paulina Niewiadomska, CFA, Senior Analyst, with oversight by Sectoral's Head of Public Equities, Marco Cianflone, CFA. Sectoral tracks its ESG-focused interactions with healthcare company executives in order to monitor progress and document our commitment to responsible investing. Trading restrictions for high controversy names are embedded in the trading software and the exclusion list is updated monthly.

This policy is reviewed on an annual basis.

ABOUT SECTORAL ASSET MANAGEMENT

Sectoral Asset Management was founded in 2000 and is exclusively focused on managing global healthcare portfolios. Sectoral continuously aims to achieve superior returns for our investors by concentrating on primary research.

Our investment philosophy is grounded in the belief that financial performance can go hand in hand with driving lasting benefits for society through improved health and well-being.

Sectoral has one of the longest track records in managing biotech equities and provides investment management services to healthcare and biotech funds offered by partners in Europe and Asia. The firm is employee owned and registered with the SEC, AMF and the SFC.