

# NORTHSTAR

## ASSET MANAGEMENT

---

# Five Pillars Research Processes and Procedures

2024

CONTENTS

Section One: Introduction - Our Philosophy and What We Do .....3  
Section Two: Terminology.....4  
Section Three: SRI Considerations for Public Equity Policies & Processes - Buy List Securities .....7  
Section Four: Fixed Income and Cash - Policies and Procedures .....9  
Section Five: Public Equity Five Pillar Screens & Questions to Ask ..... 10  
Section Six: Escalation Process and Activism ..... 14  
Section Seven: Outside Investments ..... 17

Version Date: August 14, 2024

## SECTION ONE: INTRODUCTION - OUR PHILOSOPHY & WHAT WE DO

NorthStar Asset Management, Inc. (“NorthStar”) begins all its research and diligence with the starting principle that **no publicly traded company is socially responsible**, but we hope that through thorough examination of potential and current investment opportunities, our work may:

---

We believe that *no publicly traded company is socially responsible*, but that our diligence in research and activism can make positive social change.

---

1. Help us mitigate both investment risk and risk to other stakeholders like employees, communities, customers, and the environment;
2. Allow us to identify potential investment opportunities in public equity and in Outside Investments that serve legitimate social purposes;
3. Provide us with the knowledge and opportunities to uncover concerns and pursue engagements with investee companies, through which we can make social change.

NorthStar is not an “ESG manager,” but rather a *socially responsible investment firm*. (The way we define these terms can be found in [Section Two](#) of this report.) Instead of “ESG,” NorthStar staff focus and organize diligence and research activities through the firm’s five guiding pillars: Race & Gender, Economic Equality, Human Rights, Environmental Justice, and Governance. We use these five pillars to help us identify whether a potential investment qualifies for inclusion on our Buy List, as well as whether a current investment continues to qualify or requires engagement on a concern that falls within those pillars.

NorthStar aims to examine numerous criteria within each of our five pillars; however, we are keenly aware that interpretations of each question or the threshold for meeting particular criteria change and evolve over time.

As part of our socially responsible investing perspective, NorthStar engages with companies in client portfolios. Details of our engagement strategy are found in [Section Six](#).

Additionally, we approach portfolio construction with an integrated strategy that seeks to help our clients align all financial decisions with their environmental and social goals. Given our belief that the stock market will never be perfect, we see an opportunity and necessity to facilitate or participate in direct community investments that are more aligned with our understanding of what an economy that serves the needs of the community should look like. We call these opportunities “Outside Investments.” Outside Investments are offered to clients on a case-by-case basis, recognizing the circumstances and criteria of each investment differs (liquidity, risk tolerance, investment minimums, etc.). We detail these direct investment opportunities in [Section Seven](#) of this report.

This document sets forth policies, procedures, and definitions that our staff follow when considering investment or engagement opportunities.

SECTION TWO: TERMINOLOGY

<b>Industry-Wide Terminology and Explanations</b>	
ESG	<p>The consideration of environmental, community, other societal and corporate governance (ESG) criteria in investment analysis and portfolio construction across a range of asset classes.<sup>1</sup></p> <p>It is not uncommon for market participants to use third party data providers to research and evaluate companies in their ESG analysis.</p>
Socially Responsible Investing (SRI)	<p>Socially responsible investing is the practice of applying non-financial criteria, such as ESG criteria and others, to portfolio management and research.<sup>2</sup></p> <p>An investment firm that claims to be doing socially responsible investing may avoid investing in certain kinds of companies, may look to invest in companies with some perceived social benefit, and may engage in shareholder activism to promote certain benefits in society. NorthStar uses its Five Pillars (see more on that below) to guide its socially responsible perspective.</p>
Thematic Investing	<p>The selection of assets specifically related to sustainability in single- or multi-themed funds.<sup>3</sup> This can include investing in companies that target specific secular or social themes or issues, such as water, clean energy, and gender diversity.</p> <p>While NorthStar does not market itself as a “themed fund,” our research and activism teams often identify and pursue themes in selecting public equity investments. One example is NorthStar’s research and activism on the human right to water that contributed to our decisions to hold companies that seek to improve or preserve water resources and distribution.</p>
Impact Investing	<p>Impact investing is an investment strategy that targets investments aimed at solving social or environmental problems.<sup>4</sup></p> <p>While we do not refer to our firm as an “impact investing firm,” we offer our clients the opportunity to invest in vehicles outside the traditional public market that may have impactful results different from public equities. Outside Investments, as we define them at NorthStar, are examined using the same financial criteria employ in selecting public equities and offer opportunities to our clients to affirmatively address injustice and inequity by directing capital to organizations that prioritize</p>

<sup>1</sup> <https://www.ussif.org/sribasics>

<sup>2</sup> <https://www.ussif.org/sribasics>

<sup>3</sup> <https://www.ussif.org/esg>

<sup>4</sup> <https://www.ussif.org/esg>

	mission and values and provide financial returns that are appropriate and fair rather than predatory or exploitative. Read more in the Outside Investments section below.
Integrated approach to portfolio management	<p>Integrated portfolio management is the collection of processes that ensure various elements of portfolios are properly coordinated.</p> <p>In addition to coordinating with clients’ tax and legal representation as needed, NorthStar aims to integrate our perspective around race and gender, economic equality, human rights, environmental justice, and governance across our client portfolios from public equity through the private equity, fixed income, philanthropy, budgeting, and other major financial decisions.</p>
Shareholder Activism	<p>The term “shareholder activism” describes a range of activities by one or more shareholders of a publicly traded corporation that are intended to result in some change in the corporation. The activities include hedge fund activism that seek a significant change to the company’s strategy, financial structure, management, or board, but also include one-on-one engagements between shareholders and companies such as when NorthStar files a shareholder proposal to initiate a shareholder engagement.<sup>5,6</sup></p> <p>At NorthStar, shareholder activism is the process of initiating a dialogue with a public company held in our client portfolios. These dialogues may be initiated through a written or emailed letter with targeted concerns and questions or through a shareholder proposal submitted using the SEC’s Rule 14a-8 procedures. NorthStar believes that part of our fiduciary duty to our clients involves targeted research and activism to hold companies accountable for unethical behavior and short-sightedness that affects various stakeholder groups. We author shareholder proposals and write to companies around specific concerns, vote client proxies in line with our Five Pillars analyses, and engage companies through collaborative engagements.</p>
<b>NorthStar-Specific Terminology</b>	
Five Pillars	<p>NorthStar’s five guiding pillars are: 1) race and gender, 2) economic equality, 3) human rights, 4) environmental justice, and 5) governance. We do not characterize our research on company risks or benefits via “ESG” (environmental, social, and governance) but, rather, through our Five Pillars.</p> <p>NorthStar seeks to use this lens for general decision-making at the firm, but especially when analyzing potential or current Buy List companies and engagement opportunities. Our philosophies for these different pillars are detailed in <a href="#">Section Five</a>.</p>

<sup>5</sup> <https://corpgov.law.harvard.edu/2015/04/07/shareholder-activism-who-what-when-and-how/>

<sup>6</sup> <https://www.ussif.org/resolutions>

<p>Social or environmental engagement meeting</p>	<p>Social or environmental engagement meetings refer to dialogue calls (via teleconference, video conference, or in-person) between NorthStar’s investment research team or activism team staff members and staff at publicly traded companies that specifically relate to one or more issue that falls within NorthStar’s Five Pillars. Sometimes these meetings may also include questions about the company’s financial prospects, but these meetings incorporate our “Five Pillar” concerns.</p>
---------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

### SECTION THREE: SRI CONSIDERATIONS FOR PUBLIC EQUITY POLICIES & PROCESSES - BUY LIST SECURITIES

NorthStar client assets are custodied in separately managed accounts (SMAs) at one or more qualified financial custodian(s). We invest client assets in publicly traded equity stock and fixed income instruments, including Outside Investments. NorthStar does not custody assets, nor do we manage a mutual fund product or an ETF. As noted above, NorthStar begins all due diligence and analysis on potential and current investment opportunities with the premise that *no public company is socially responsible*. With that in mind, we examine investment opportunities through the lens of our firm's five pillars: race and gender, economic equality, human rights, environmental justice, and governance.

NorthStar **does not create a scoring system** for potential or current investment opportunities. NorthStar performs in-house diligence research in pursuit of various factors including but not limited to: gathering quantitative and qualitative data for our Five Pillars Social Review, determining company culture, identifying underlying issues that may prohibit our investment due to misalignment with our firm goals, and identifying issues upon which we can engage the company. We do not use or create scoring systems for investment opportunities because we believe that scoring systems attempt to distill *complex systems* and *real-world issues* into quantifiable factors in a way that dismisses other interrelated factors.

The public equity portion of our client portfolios consists of approximately 40-45 companies from around the globe, selected to provide risk diversification across market capitalization, size, and industry sectors relative to a global benchmark, with the goal of generating a competitive return through idiosyncratic stock performance over the long-term.

We do not invest in companies whose primary business is the production of fossil fuels, tobacco, gambling, alcohol, mining, weapons manufacture, or nuclear energy.

We engage with companies on our public equity "Buy List" through targeted shareholder activism to address their behavior in these areas. While there are some publicly traded stocks that NorthStar would never hold due to the significance of misalignment with our Five Pillars, there are also companies that perform important social functions that impact the lives of stakeholders throughout the globe while also exhibiting policies or actions that warrant shareholder engagement. Because no company is perfect, we weigh these varying factors and, from time to time, make strategic decisions to place companies on our "Buy List" that meet our financial criteria but which merit improvement from our socially responsible perspective. We then strive to engage those companies through shareholder activism on the issues of concern.

As a client's risk and time horizon varies, we will adjust the overall asset allocation to equities. A change in the percentage allocated to equities adjusts the target for the absolute size of the positions but not the number of stocks included or the target percentage of each stock in the equity portion of the portfolio.

#### **PUBLICLY TRADED COMPANY FIVE PILLAR REVIEWS:**

##### *Responsibility:*

NorthStar's investment research team, under supervision of the Chief Investment Officer and in collaboration as needed with the Director of Shareholder Activism and Engagement, is

responsible for producing a Five Pillars Social Review for each publicly traded company on the NorthStar Buy List.

*Timing:*

We seek to engage in a Five Pillar Review before any new company is added to the Buy List.

Often times, clients will have equity holdings that have come into their portfolio that do not meet our Buy List criteria before becoming NorthStar clients. We will only conduct a Five Pillars Review for these companies if we are considering adding them to the Buy List.

*Recurring Diligence:*

NorthStar will review and update each company's Five Pillars Social Review when negative/controversial news is discovered. Material news is always assessed against our five pillars.

*Documentation:*

After consideration by the investment committee, final Five Pillar Review reports are kept in the pertinent investment opportunity's digital folder and/or the Equity Research and Activism Database. The decision to remove or add an investment to the Buy List is documented in the asset allocation and strategic committee (AASC) meeting notes. The Equity Research and Activism Database is maintained to show our analysis across the Five Pillars and is also used to ensure consistency across each parameter/metric.

*Communication with Investment Decisionmakers:*

NorthStar's Asset Allocation and Strategic Committee meets approximately bi-weekly or on ad hoc basis to discuss potential and current holdings and relevant economic and social/environmental news. Five Pillar Social Reviews are shared with the full Investment Committee and will be discussed at Investment Committee or Portfolio Management meetings. Any further questions will be collected, researched by the appropriate staff member, and answered at future meetings.

*Decision to Remove Companies from the Buy List for Five Pillar Reasons:*

1. Sometimes we add a company to the Buy List with the intent of addressing a certain issue. Over time, if we cannot make progress through engagement and shareholder activism, we may decide to remove the holding from the Buy List.
2. Occasionally, barring financial concerns, company actions demonstrate misalignment with our Five Pillars that are so significant, and where we feel investor tools may be unable to make the needed change, that we decide to immediately remove the company from our Buy List and divest holdings without initiating company engagement.



## SECTION FOUR: FIXED INCOME AND CASH - POLICIES AND PROCEDURES

Each NorthStar client has a personalized asset allocation. Part of that allocation usually involves fixed income investment instruments. Those instruments include low credit risk fixed income securities such as U.S. treasury and agency bonds. From time to time, it's appropriate for clients to buy state municipal bonds, corporate bonds, or other community investment notes that are publicly traded. On a case-by-case basis and in discussion with individual clients, a portion of the client's fixed income allocation may be invested in Outside Investments, detailed in Section Seven: Outside Investments, below.

Because of the low credit risk nature of the fixed income securities that NorthStar selects for clients (usually treasuries and agencies), NorthStar does not routinely conduct an extensive fundamental or full Five Pillars Review on fixed income securities besides Outside Investments.

NorthStar invests in fixed income securities which are rated as investment grade or of sound credit quality by the credit rating agencies such as Fitch, Moody's or S&P. For corporate bonds, NorthStar regularly seeks out fixed income opportunities that have stated social or environmental benefits, such as green bonds, social bonds, and women-focused bonds. NorthStar does not invest in bonds issued primarily to fund fossil fuel, gambling, alcohol, nuclear, tobacco, weapons-related projects.

A final portion of each client's asset allocation is dedicated to cash. Again, this allocation is decided in concert with the client upon onboarding and is reviewed periodically or as the client's needs change. This cash is generally kept available or in money market funds for client financial needs, and we do not perform Five Pillar due diligence on cash holdings.

**SECTION FIVE: PUBLIC EQUITY FIVE PILLAR SCREENS & QUESTIONS TO ASK**

As detailed above, **NorthStar believes that no publicly traded company is socially responsible.** However, we also believe that thoughtful due diligence related to our five pillars can mitigate risk and uncover opportunities where we, as investors, can make social change through shareholder activism.

In pursuit of our socially responsible investing philosophy, NorthStar maintains a social screening policy. The policy is described below, organized by NorthStar’s Five Pillars. In addition to our general social screening policy by pillar, we collated sample questions that guide how we analyze each potential or current portfolio company by pillar. The full live document is maintained in NorthStar’s online server system: [R:\ Equity Research\ Codifying Research Process Project\Five Pillars Questions](#) These questions are used by the investment research and activism teams to produce a Five Pillars Review.

**EVALUATION PROCESS:**

NorthStar conducts a tiered evaluation process. Investment research and activism teams begin by performing a short review of each company that appears promising. This review is tailored to the company in question but often includes limited reviews of key diversity indicators, recent political contributions history, and broad environmental and social considerations of the company’s manufacturing or product usage in terms of potential concerns or positives.

If the company passes these early screens, NorthStar’s investment research team, with the activism team as a resource, performs a complete Five Pillars Review, including examining a broad range of issues and factors. The Review will be halted if the Review uncovers either *too many* concerning responses or problems that are *too severe* to be included in the NorthStar Buy List at the time of review. This review involves collecting numerous qualitative and quantitative data points using investee company resources, online bench research of various nonprofits and research agencies, and data from Bloomberg resources. This research is contained in the internal Equity Research and Shareholder Activism database.

**QUESTIONS THAT GUIDE OUR RESEARCH PROCESS:**

As noted above, NorthStar maintains an evolving list of questions that often guide our research process for potential Buy List companies and/or for periodic review of existing Buy List companies. Specific questions asked of each company may vary based upon documents that are publicly available, issues that NorthStar is prioritizing as a company, new controversies, and/or the sector or industry of the issuer. This information is gathered over time as relevant events occur and is revised as needed throughout each year. Below is a [sample of these questions](#); however, these questions are contained in a live document that is maintained in NorthStar’s online server system: [R:\ Equity Research\ Codifying Research Process Project\Five Pillars Questions](#)

Pillar	Screening Philosophy and Sample Questions to Ask
<b>Race and Gender</b>	<b>Philosophy:</b> The U.S. economy was built on the unpaid forced labor of enslaved people and continues to suppress Black and Brown members of society. Corporate America has been integral in this oppression as well as the repression of women and LGBTQ+ people. In performing diligence on current or potential Buy List companies as well as identifying engagement

	<p>opportunities, NorthStar examines a variety of issues related to race and gender.</p> <p>We believe that promoting race and gender justice and equity is not only the right thing to do but is also financially sound with fundamental economic and evidential rationale equating it with better company performance.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. What is the ratio of racially/ethnically diverse and gender diverse board members to white male board members? Same for senior management.</li> <li>2. What is the workforce diversity? How does that compare to the diversity in company’s headquartering city or major work sites?</li> <li>3. Does the company have DEI policies and practices? Do we believe they are sufficient? What could be improved?</li> <li>4. Has the company made political contributions to any political candidates that have espoused racist, xenophobic, anti-immigrant, misogynistic, or hateful rhetoric in the past 5-10 years?</li> <li>5. Has the company spoken out in support of women’s rights and/or women’s reproductive health in the past 5 years? LGBTQ+ rights? If yes, how?</li> </ol>
<p><b>Economic Equality</b></p>	<p><b>Philosophy:</b> Similar to our concerns about race and gender, we believe that corporations are a significant cause of historic and modern economic inequality. Through white supremacy and misogyny, companies have promoted white male culture and economic status.</p> <p><b>We recognize and name that we, as investors, are inherently promoting this system and benefitting from it while we also seek to make change.</b></p> <p>Through our diligence and engagement on economic equality issues, we seek to solve an evolving list of issues such as: shrinking race and gender pay gaps, restoring worker voice and economic power, holding companies to account for overpaid CEOs, and prioritizing marginalized voices such as that of migrant workers. We seek to invest in companies that treat their employees and customers fairly, pay employees generously, and that support the local communities in which they do business.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. What is the CEO or NEO (named executive officers) pay ratio to its median employee? How has the pay increased/decreased in the past 5 years? Did the pay package vary due to the COVID pandemic?</li> <li>2. Does the company have a commitment to pursuing economic equality, redistribution of wealth, or similar sentiments? If yes, how does it pursue those goals?</li> <li>3. Does the company have a union? Is it known for union-busting?</li> <li>4. Does the company offer health insurance, sick time, and other benefits to its full employee base, including part-time employees?</li> <li>5. What are the companies processes and policies related to hiring/retaining employees with criminal records? Does it ask about prior convictions on job applications? Does it have data on what</li> </ol>

	<p>percent of applicants and hired employees have criminal records? Does it examine this process for bias, including racial bias?</p>
<p><b>Human Rights</b></p>	<p><b>Philosophy:</b> Violations of human rights are direct threats to a company's reputation, brand, and value, as well as the long-term sustainability of communities around the globe. Human rights concerns vary by country and industry, but include child/forced/prison labor, human trafficking, building siting, Indigenous rights and land use consent, cultural competency, and community grievance.</p> <p>Because investors have limited insight into supply chains, NorthStar has a policy of developing and maintaining relationships with human rights experts on the ground in the highest risk regions and sectors. Currently, NorthStar seeks expert advice related to palm oil, conflict minerals, and pollution from semiconductor manufacturing.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. What human rights policies does the company have in place? Does the company have a supplier or vendor code of conduct? Do the company's policies align with international standards?<sup>7</sup></li> <li>2. Does the company conduct third-party social audits? If yes, how often? Do they apply to down-tier suppliers?</li> <li>3. Is there a grievance mechanism process for local communities? What evidence is there that local communities know and use this process?</li> <li>4. Are workers in the manufacturing supply chain exposed to hazardous chemicals or dangerous conditions? What safeguards are in place?</li> <li>5. Does the company use AI or satellite or drone footage to uncover human rights and environmental hazards?</li> </ol>
<p><b>Environmental Justice</b></p>	<p><b>Philosophy:</b> As a global community, we are currently experiencing the confluence of extractive growth and ecological limits referred to by scientists as the Anthropocene period - a new geological era characterized by the influence of humans on nature. Our collective ecological footprint exceeds the capacity of the earth to regenerate, and we witness this every day in the form of climate change, natural disaster, social and political upheaval, and pollution and waste.</p> <p>As individuals and companies that use natural resources, each and every company has a duty to the environment. Humanity and all of our social, political, and cultural systems are intimately connected to the physical environment. Many of our most critical issues of inequality and discrimination are inextricably linked to exploitive and extractive practices related to material resources. When possible, we seek out the views of Indigenous groups and Black and Brown environmental leaders as input into our perspectives.</p>

<sup>7</sup> Examples of appropriate international standards include but are not limited to the: UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work, OECD Guidelines for Multinational Enterprises, and Universal Declaration of Human Rights.

	<p><b>Because nearly all production relies on fossil fuels - as a raw material or an energy source - we do not believe any portfolio can be “fossil fuel free.”</b> However, NorthStar excludes companies that produce fossil fuels, other extractives, and chemical or nuclear power from its Buy List. We aim to understand and weigh the need in society of fossil fuel-adjacent technologies or products, and we seek to invest in companies that implement innovative environmental programs and safe, reliable products.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. What environmental issues are related to the company’s revenue sources? These should include considerations of GHG emissions, water use and pollution, air pollution, chemical production, hazardous waste and non-hazardous waste production and disposal.</li> <li>2. What practices does the company have in place to manage these risks?</li> <li>3. Does the company have a history of violations related to waste or pollution disposal? If yes, were these violations related to an event that happened before or after an acquisition of the violating entity?</li> <li>4. How does the company ensure that water use or wastewater does not impact the surrounding and downstream communities?</li> <li>5. What are the company’s climate change mitigation practices? Are they aligned with Science Based Targets Initiative?</li> </ol>
<p><b>Governance</b></p>	<p><b>Philosophy:</b> Shareholders provide checks and balances on the management of public corporations and, by virtue of their decisions to become public companies, the corporations should be held accountable as such. Strong governance, including shareholder input, protects firm value by preventing missteps or allowing for shareholder feedback when corrective action is needed. Corporate governance is the undergirding that determines all company actions, procedures, and policies that affect each of the other four pillars through which examine companies.</p> <p>In our investment due diligence, we ask ourselves whether and how each company in our portfolios provides a long-term benefit to society by studying the company through its overall product offering, community investments, political contributions alignment with company values, services to the marginalized communities or unbanked, the structure of its interactions and efforts to promote equal access to education and services, and the firm’s own vision of its role in the world.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. How many classes of board members make up the board?</li> <li>2. Is the board chair an independent director (not employed by the company)?</li> <li>3. Does the board use a plurality or majority voting structure?</li> <li>4. In which country is the company incorporated?</li> <li>5. For foreign issuers, are there any significant political or governance issues related to the government? Is the company based in a country with an oppressive regime in power?</li> </ol>

## SECTION SIX: ESCALATION PROCESS AND ACTIVISM

Throughout each year, NorthStar equity, investment, portfolio management, and activism staff continually review and collaborate on the prioritization of engagement activities and topics. NorthStar's activism staff conducts formal engagement annually with numerous Buy List companies, and NorthStar's investment research team staff initiates dialogues with Buy List companies on an as-needed basis throughout the year when questions, concerns, or controversies arise.

### **ESCALATION PROCESS:**

When NorthStar staff identify an issue of concern related to a current Buy List company, the appropriate person on staff in charge of the issue or equity holding is informed. In most cases, either an investment research team member or activism team member will take responsibility for researching the issue, sharing learnings with the investment research team, collect questions, and garner responses from the company directly (as needed) in writing or via teleconference. Final learnings are shared with the investment research team and a determination by the group is made, also considering other firm concerns such as capacity and existing engagements with that equity holding, as to whether further engagement is needed.

In some instances, the issue or its potential solution is best suited for engagement through a shareholder proposal. The reasons for this level of escalation varies, depending on NorthStar's capacity for engagement, significance of the social or environmental effect on the company, or severity of the issue or its effects. More severe concerns or for those which we believe we can have the most influence are often prioritized for the shareholder proposal process.

The Director of Shareholder Activism and Engagement is responsible for leading or delegating activism engagements. This may involve writing a letter to the company asking for clarity, researching and writing a shareholder proposal, direct dialogues with the company on the issue, directing proxy voting aligned with our proxy voting guidelines, and/or writing and filing an exempt solicitation with the Securities and Exchange Commission in support of the shareholder proposal. We also support petitions and statements from other investor groups and collaboratives that fall within the scope of our five pillars. NorthStar "signs on" as a supporter of the petition or statement asks including those addressed to corporations, management, elected officials and regulatory agencies .

Part of the research on these issues includes exploring if and how other shareholders have engaged a company on similar issue and understanding the company's response. This research is done in preparation for a shareholder proposal filing, the purpose is to identify whether NorthStar can bring a different perspective on the issue. If we cannot, we may decide that engaging on that issue should not be prioritized at that time.

### **LIMITATIONS:**

In our pursuit of engendering significant and tangible social change, NorthStar seeks to make appropriate and reasonable goals for staff engagements with issuers. We keep in mind several limitations:

1. *Logistics:* NorthStar prefers to engage via a shareholder proposal when possible due to the significantly higher response rate we have experienced, but certain situations (including topic/issue, company country of incorporation and local laws, or

- timeframe/deadline) may necessitate an engagement outside the shareholder proposal process.
2. *Capacity:* As a boutique investment firm, NorthStar has inherent capacity limitations in terms of the volume of engagements that firm staff can undertake each year. While there are innumerable concerning issues that are appropriate for shareholder engagement each year, NorthStar must appropriately prioritize issues of concern and companies each year. For this reason, we are often unable to engage every Buy List company every year and we do not currently engage fixed income bond issuers. We may also limit our engagement on a particular issue if there is a high likelihood that other active shareholders may engage on the issue, preferring to allocate our resources to issues where we can affect change where there is currently a lack of interest or resource investment. Our engagement with other stakeholders is guided by the belief that collaboration must center activists and those most impacted by the issue.
  3. *Regulatory limits:* Additionally, NorthStar is bound by Rule 14a-8, the Shareholder Proposal Rule, that dictates what shareholders can ask of companies and in what way. While we continually seek innovative ways to engage within the limits of the rule, NorthStar is unable to engage on various issues that would be considered micromanagement, ordinary business, or where the SEC may determine that the company may have substantially implemented our request. At times, we collaborate with a securities attorney to better identify these boundaries. NorthStar is limited by this rule to only file one shareholder proposal per year, per company. Finally, due to local laws, shareholder proposal engagement with non-U.S. issuers is often very difficult or impossible. For this reason, NorthStar typically engages foreign issuers through letter-writing and teleconference requests.

### **EDUCATIONAL PROCESS:**

To facilitate the firmwide education on activism issues, NorthStar's activism team regularly prepares and presents on activism topics or brings external expert presenters to firmwide staff meetings or Investment Committee meetings. The investment research team, working in close collaboration, with the activism team is responsible for integrating social review encompassing the Five Pillar framework along with fundamental analysis.

**Proxy voting:** NorthStar votes the proxies of all holdings for firm clients. Our proxy voting policy is available publicly on our [Creating Change webpage](https://northstarasset.com/creating-change/)<sup>8</sup> and is typically updated annually to reflect changes in the market, society, and evolutions in our understanding of issues.

### **NOTE on Outside Investments and Engagement/Escalation:**

NorthStar's shareholder activism and issuer engagements on Five Pillar issues is almost exclusively limited to our public equity holdings. As described in more detail below, our Outside Investments strategy and diligence processes vary from our public equity's diligence, while remaining grounded in our overarching philosophy and Five Pillars lens. For Outside Investments, we believe that those affected by an investment should be included in how the investment is made and that the reason for shareholder activism - the public companies that feel they do not serve the public - does not generally apply to Outside Investments. When a controversy arises or we uncover an issue with

<sup>8</sup> <https://northstarasset.com/creating-change/>

alignment our Five Pillars, NorthStar investment staff would evaluate the situation and potentially considering avoiding or ceasing investments in the problematic organization.



## SECTION SEVEN: OUTSIDE INVESTMENTS

### OVERVIEW

NorthStar may pursue Outside Investments in alternative asset classes outside of public equity, fixed income, and cash to enhance the social impact of a client's portfolio, without necessarily enhancing expected financial performance. These investments are made in response to a client's desire to have a more direct relationship with an organization or impact on a project in their community or area of interest. We recognize that while shareholder engagement can improve the state of the public markets, inequities are embedded within the very foundation of these structures. Outside Investments are the place in the portfolio where we seek to support new economies founded on fairness and justice.

These investments may be in the form of community loan funds, micro-lending corporate bonds, and/or innovative private equity investments that align with client and NorthStar values. Investments in private companies and socially significant projects focused on such priorities as renewable energy, clean water, healthy foods, and sustainable farming, ranching and forestry are evaluated on a case-by-case basis and integrated into a client's full investment portfolio where appropriate.

These evaluative services are offered to clients who can shift portions of their portfolios to higher levels of illiquidity with a focus on regenerative investments. The investments are directed and authorized by the client, with input from NorthStar as to client suitability relative to risk and client objectives. Any securities associated with these investments are held in custody by the client or the issuing organization.

### OUTSIDE INVESTMENTS RESEARCH PROCESS

NorthStar's Outside Investment research process begins with an initial review of an opportunity. Specifically, we seek to understand whether an investment meets the three minimum criteria below:

1. **Values Alignment:** Does this investment opportunity appear to align with at least one (and ideally more) of NorthStar's five priorities: 1) economic equality; 2) human rights; 3) race and gender; 4) environmental justice; and 5) governance?
2. **Structure:** Do we have experience with and/or understand the structure of the company/fund?
3. **Terms:** Are the investment terms appropriate for NorthStar clients and compatible with NorthStar's values? Priorities include ensuring that: the interest rate (if applicable) is affordable for borrowers, the total offering/fund size and minimum investment amount are within our optimal ranges, preferably \$5 million minimum offering and no more than \$250,000 minimum investment and the investment contributes more wealth to local communities than is retained by investors.

If an opportunity meets the minimum criteria, we conduct a deeper level of research to determine the values alignment with NorthStar and our clients. Similar to our equity screening, our evaluation is organized by NorthStar's five pillars. In addition to our general social screening policy by pillar, we have also listed sample questions that guide how we analyze each potential or current portfolio company by pillar.

Pillar	Screening Philosophy and Questions to Ask
<p><b>Race and Gender</b></p>	<p><b>Philosophy:</b> The U.S. economy was built on the unpaid forced labor of enslaved people and continues to suppress Black, Indigenous, and other individuals of color. Outside Investments recognizes that the economy was built on the exploitation of these populations and seeks to create new structures that center the voices and needs of these communities. Investor requirements - return profile, time horizon, structure - are not the primary concern with the investment. Instead, the shape and nature of the capital is shaped by what is required to begin to repair the harm done to these communities. We focus on solutions that are developed, championed, and led by the communities we are seeking to support.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. What are the origins of the investment idea? Is the opportunity led and championed by the individuals it seeks to support?</li> <li>2. What are the demographics of the organization? Are they reflective of the individuals it seeks to serve?</li> <li>3. Who else is supporting the initiative? Are they also supportive of race and gender?</li> </ol>
<p><b>Economic Equality</b></p>	<p><b>Philosophy:</b> We recognize that the accumulation of wealth in this country has been at the expense of people and the planet. We seek to ensure that we aren't having unintended consequences with our capital (widening the wealth gap, imposing harmful risk on investees, or perpetuating oppressive power structures.) For investments that involve lending to individuals and businesses, we do not recommend an investment if end borrowers are charged more than 10%. We view this rate itself as expensive and prefer much lower costs for borrowers. We seek to support initiatives seeking affordable, patient, and kind capital and that prioritize holistic economic health for people.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. What is the return profile of the investment? How was it determined?</li> <li>2. How does the investment seek to improve economic equality? How are those standards determined?</li> <li>3. Are the economic expectations reasonable? Are there any unintended consequences of its economic goals (i.e. overly aggressive growth expectations, reliance on unsustainable economic conditions)?</li> </ol>
<p><b>Human Rights</b></p>	<p><b>Philosophy:</b> Outside Investments are solely focused on the United States. As a result, while we encounter issues of human rights, they tend to be rooted in issues of race, gender, economic inequity, and environmental justice, making human rights quite fundamental to our broader research. While nearly all of our questions relate to the advancement of human rights, sample questions might include:</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. How does the organization ensure fair treatment of labor across the supply chain?</li> <li>2. How does the organization enable and promote fair participation and access to essential goods and services?</li> </ol>

<p><b>Environmental Justice</b></p>	<p><b>Sample Questions:</b> As a global community, we are currently experiencing the confluence of extractive growth and ecological limits referred to by scientists as the Anthropocene period - a new geological era characterized by the influence of humans on nature. Our collective ecological footprint exceeds the capacity of the earth to regenerate, and we witness this every day in the form of climate change, natural disaster, social and political upheaval, and pollution and waste. Additionally, we recognize that those least culpable for our crisis are most proximate to its effects.</p> <p>We seek Outside Investments that acknowledge that our climate crisis is one of many indicators that we are exceeding our planet's ecological limits and seek to support efforts that embrace reasonable growth expectations and a reduction in consumption. Furthermore, we seek to support those initiatives grounded in the communities most impacted. Technology might play a role in solutions, but we know that technological changes alone are not enough.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. Does the organization have a shared philosophy on environmental justice?</li> <li>2. Does the organization seek to make its good/services accessible to those at the margins?</li> <li>3. Does it recognize that human behavior and habits must shift?</li> </ol>
<p><b>Governance</b></p>	<p><b>Philosophy:</b> Whereas in the public markets we seek to engage with companies to ensure the public is represented, the Outside Investments we recommend inherently seek to be in service of the communities and people they serve. We also recognize that within the public markets, shareholders have significant power. Within Outside Investments, we seek out opportunities wherein the voice of the investor takes on a secondary role.</p> <p><b>Sample Questions:</b></p> <ol style="list-style-type: none"> <li>1. How are decisions made?</li> <li>2. Who has decision making ability? Does this reflect the population that the organization serves?</li> <li>3. What is the role of Outside Investors? Do they have the appropriate amount of oversight?</li> </ol>

**PROCESS**

In addition to asking these questions, the Outside Investments team follows the steps below as a guideline for our investment research process.

1. Review all offering documents, financial statements, and other materials provided by the fund/company.
2. Compile and submit questions to the entity.
3. Request investor references and check them.
4. Use personal and professional networks as well as internet searches to research reputation, history, experience, etc.
5. Assign fund/entity to an OI Investment Category (see below)

6. Write an investment memo, including rationale for Category assignment and Recommendations (see below for further detail).
7. Finalize the research process by ensuring the completion of:
  - a. Documents and research notes filed in relevant folders
  - b. Confirmation of investment terms
  - c. Receipt of necessary investment documentation
  - d. Record of updated research status on the master OI spreadsheet

We conclude our research process by assigning a potential opportunity a category (described below). These indicate an opportunity's suitability level among our client base.

### **1. OI Buy List**

These names are those that are consistently recommended for all eligible clients subject to liquidity constraints and asset allocation specifications. They are characterized by historically reliable track records and/or risk ratings and by their availability—offered on an ongoing or frequent basis.

### **2. OI Selective**

This category consists of funds and enterprises in which we recommend that some NorthStar clients invest in equity shares or units. These are ideas we have identified and recommended based on financial suitability and client interests and ideas that clients have presented, and we have researched and recommended as appropriate. Most of these investment opportunities are available periodically only rather than on an ongoing basis.

### **3. OI Watch List**

This category includes prior OI Buy List investments that are not currently on our OI Buy List, potential new additions to our OI Buy List, and potential new investments for selected clients.

### **4. OI Negative**

This category includes entities/funds that we have reviewed and determined to be unattractive for NorthStar clients and investments that clients have made without our recommendation and which we do not believe are suitable for other clients. Priority 4 includes investments that did not meet our Initial Screen.

### **5. OI Inactive**

This category includes investments that have been made in the past and that are no longer part of NorthStar's active list of Outside Investments.

NOTE: We use the Pending (Buy List Pending, Selective Pending) to identify entities that are in the research process.

## **ANNUAL REVIEW**

NorthStar annually reviews the Outside Investments in client portfolios to ensure financial viability and enduring commitment to our five pillars. We evaluate the investment on the same criteria as described above. Additionally, during our Annual Review, we seek to determine:

1. Is the organization a going concern? We will have different means of determining this depending on the entity. When available, we can use ratings (AERIS, public bond ratings). Read financial statements and notes. Look for red flags—significant changes in revenues, expenses, assets, liabilities.
2. Is the organization doing what we thought it was doing when we recommended it to clients? Again, look for red flags. We conduct web searches, annual reports, and incorporate any other notes or intel that we have in the folders or from our networks.
3. Is there anything we have learned that suggests we change the Priority level of the investment—whether up or down?

If the investment has deviated from what we expected, NorthStar may initially engage with the investee and understand the rationale for the shifts. If there has been a fundamental change in their approach, we will likely cease future investments. Due to the illiquid nature of most Outside Investments, it may not be practical to end or exit the investment, however we will notify clients of changes in our evaluation.