



## Orchard US Small Cap Value Strategies

### 2021 Engagement Overview

Orchard Capital Management has used an active investment strategy since inception. An integral part of that strategy involves research and seeking out answers from the management of our current and prospective investments. We have engaged management on a variety of issues including the core Environmental, Social/Sustainability and Governance categories. While not an activist investor, we have long shared our views and concerns with management and feel that it is a core part of the dialogue between investor owners and management.

### *Engagement Practices and ESG*

Orchard regularly speaks with company management for research. As part of that we will voice or share the concerns with management – it is one of their few feedback mechanisms. While we had included Environmental and Social discussions in our meetings alongside frequent governance discussions since our inception, the growing awareness of both our team and the market led us to purposefully include ES topics in management discussions starting in January of 2020. US Small Cap companies still report intermittently and inconsistently on these topics. Recognizing the current environment have sought to do the following to have the greatest impact:

- Increase transparency and reporting from portfolio companies and prospective investments considered by Orchard.
- Increase awareness of ESG as a process and as a pool of capital influencing US Small Cap Value
- Engage with companies to learn more about their relevant ESG approach
- Engage with companies on specific ESG matters when we believe that there is a particular concern or opportunity for improvement on reporting, disclosure or business practices.
- Gather and analyze ESG metrics on each portfolio company and prospect regularly and integrate this reporting into Orchard’s research and portfolio processes.
- Assess quantitative reporting (and its limitations) for opportunities to inquire or improve information and transparency actively.

### **Orchard Practices to Improve ESG in portfolios and in Small Cap**

To further better and truly effective action in ESG, Orchard has operationalized its ESG engagement with companies in the following specific ways:

- Inquire on a company’s current reporting and intentions to report on ESG, including any formal separate reporting within the company’s annual report or as a separate and distinct report. Accountability starts with measurement and measurement starts with reporting.
- We have also explicitly offered our view that increased reporting is important to investors and that companies that have awareness of these risks and opportunities will be better prepared for the future and within their markets. We have also offered the view that transparency to investors on these matters is important and will continue to inquire and suggest reporting to keep the “issue on the table.”
- We have offered up that our Fund and significant assets actively integrate ESG into our decision-making and that this trend is increasing. We have shared our UNPRI and SFDR 8 status and obligations and explained that importance of being prepared to answer to Orchard and a growing pool of capital that demands better answers and accountability.



- We will and do actively vote proxies (and regularly voted against proposals and board members). This often includes governance issues or other incentives or fiduciary matter but now also is a function of other Environmental, Sustainability and Social considerations.
- We will wait to vote some proxies near to the deadline during contentious periods to incentivize management to seek out investors and to hear us out so that our voice can be heard.
- Where relevant, if another shareholder has expressed a view, we will share whether we agree or disagree with that view (especially if it might indicate which way we might vote). While we have not actively filed a shareholder recommendation or an activist filing for over a decade and do not view this as our role, we will retain this tool (and the threat of it) as a tool for engagement and acting in our best fiduciary capacity.

## **2021 Engagement Overview**

Our research process regularly includes conversations on ESG topics with companies, other sources and within our research and portfolio team discussions. During the year, certain issues will emerge that call for specific engagement or will provide opportunities within our process where ESG becomes a notable part of our engagement with portfolio and prospect companies. We have provided a summary of these engagements along several categories. In a few cases, the initial engagement started in prior periods and then either the engagement or an action or update occurred in 2021.

*Please see the following pages for a table of our notable ESG engagements summary*

We look forward to your continued support and engagement,

The Team at Orchard Capital Management



## 2021 Engagement Summary

<u>Company</u>	<u>Category</u>			<u>Note/Feedback/Follow-up/Result</u>
	<u>Environmental / Sustainability/Social</u>	<u>Governance</u>	<u>Other</u>	
<b>AZZ Inc</b>	Discussed firm's ESG approach and requested more information and increased transparency. Management indicated that they are already working on greater ESG transparency and will produce a specific ESG report.			AZZ published first ESG report in October 2021
<b>Axos Financial</b>		Longer discussion with new CFO regarding large investor feedback. Included in the discussion was a discussion of evolving the board to grow with the increased capability and sophistication of the Axos the company and Axos the management. Suggested adding newer board members capable of raising the operational or deal-making expertise of the company and that would be on more even footing with a (now very) successful and confident founder/CEO.		CFO agreed to include comments in formal report to CEO and board.
<b>Franklin Benefit Realty Trust</b>		As part of larger post-merger strategy discussion, discussed merged company incentives. REIT is now externally managed and offered tension between alignment of Company and Management. CEO offered up that they had purchased stock and that company management would continue to share more on alignment.		
<b>Franklin Benefit Realty Trust</b>	Discussed need for public company management to be responsive to shareholders and need for ESG transparency.			Team agreed and said that they would review their approach here in the early days of being a public company.



Category				
<u>Company</u>	<u>Environmental / Sustainability/Social</u>	<u>Governance</u>	<u>Other</u>	<u>Note/Feedback/Follow-up/Result</u>
Greenlight RE			Discussed operational failures at the underwriting and investment level with the Chairman, CEO and management. Acknowledged firms difficulties but indicated that most operational performance issues are echos of 2018-2019 activity and current approach is more measured	
Greenlight RE	Discussed need for public company management to be responsive to shareholders and need for ESG transparency. Management indicated that they take the issue seriously as any Cat Risk reinsurer should. We indicated that they should provide reports on how they address this as a company.	In light of no merger or restructuring, we discussed the question of proper alignment of the company to consummate a merger. Management (esp the chairman) reiterated that management is by far the largest shareholder and that they ran an outside process and, most importantly, that it did not produce a real offer or even a firm initial offer at any reasonable level near book/NAV value.		Management agreed that they would continue to be open to other options even if they would not actively run a process and that they would review their ESG policies.
Imax Corp		Discussed the Company's compensation strategy and incentives vs its industry peer group. We mention our concerns to management considering the impact from COVID 19 and the need to preserve capital.		Management was aware of the concern since other larger institutional investors have expressed the same issue. Overall, the compensation has come down to the industry median but we will continue to monitor carefully as conditions improve.