

## **ESG Policy**

The Directors believe in the importance of a strong corporate governance framework to ensure responsible investing focused on the values of the Company and that building trusted relationships with the Company's stakeholders is crucial for delivering long-term sustainable returns to Shareholders.

The Company is not a sustainable investment fund and, whilst the Investment Policy of the Company has no direct impact on the environment per se, when pursuing the Investment Objective and in the selection of the service providers and advisers of the Company, the Company aims to conduct itself responsibly, ethically and fairly with the impact of all material factors, including ESG, on the financial risk and return being considered in the decisions it makes.

As the Company's investment exposure is predominantly in lower information issuances and securities, an internal framework to evaluate ESG risks and exposures of the Company's investment universe is being developed by the Manager using commoditised data supplemented by existing information to evaluate material ESG risks for each investment.

## **The Investment Portfolio**

The Company invests in opportunities created by regulatory and structural changes impacting the financial services sector. The target investments, comprising primarily securitizations and credit risk transfers, significantly lag other fixed income asset classes with respect to ESG disclosures due to the complex nature of the market and lack of available data.

## **Securitisations, Related Investments and Credit Risk Transfers**

The selection of underlying collateral positions is carried out by the Manager, which considers many factors including:

- i. Social Megatrends that have the potential to impact portfolio diversification, default projections, and overall risk profile of underlying banks and insurance companies. Demographic trends also drive the economy, which in turn influences growth, consumption, and the performance of corporate credit. Shifting banking habits of the general population, especially millennials, has changed the client profile of many of the regional banks across the US. Increased automation and technology, prompted by the COVID-19 pandemic, is appearing across many regional banks and insurance companies, and remote working has grown in a sector that was previously seen as lagging behind the larger banks. On one hand this can lead to increased profit margins and market share, but may also result in the displacement of workers due to job replacement. Automation and technological disruption presents both risks and opportunities; and
- ii. Governance considerations are made in respect of underlying investment company management teams and alignment with their shareholders, customers and other stakeholders but also, in respect of EJF's exposure to securitisations, how each securitization is managed.

Additionally, at issuance, and in the event of a rating change, EJF sponsored securitisations receive a credit rating from both Kroll Bond Rating Agency and Moody's for which the former includes ESG considerations within its credit factors. In addition, any collateral

position that would negatively impact the overall rating would be excluded by the Manager, but at this time there is no transparency from the rating agencies on which ESG factors are deemed material and how they impact the final credit rating.

The Directors will review this ESG Policy on an annual basis.