Export Infrastructure

Webber Research: 2020 ESG Scorecard

2020 ESG Scorecard – Updated Model, Same Idea. Before we delve into our updated rankings, framework, and company specific changes, we want to reiterate the idea that underpins this entire endeavor, which is that **we believe there is no longer a place in the public shipping markets for companies that do not prioritize strong corporate governance and capital stewardship.** We believe that risk premiums associated with poor governance and capital discipline should continue to widen, eventually pricing-out conflicted players and antiquated structures from public markets.

New Carbon Factor. Our 2020 ESG Scorecard includes a broadened methodology that incorporates the public disclosure of relevant of carbon data, which becomes the **9th factor** within our *proprietary multi-factor ESG model* and increases the total number of *subfactors* to 20 (from 18). The carbon disclosure metrics we've chosen to initially include (**AER** & **EEOI** – see Page 15) are aimed at aligning our ESG framework with the Poseidon Principles, and intended to help facilitate the consistency and disclosure of carbon data to investors. We will also continue to display each company's **ESG Scorecard Quartile,** as well as a **Carbon Disclosure Indicator** on the front page of our company-specific research notes – as we've done since we launched Webber Research in Q419.

Model Adjustments. We've given our new Carbon Factor a 20% weighting within our model, positioning it among the most dominant variables within our framework, while reweighting other aspects of our model in order to accommodate the addition. Our revised factor weightings and methodology can be found on Pages 10-15. We also narrowed our 2020 ESG Scorecard universe to 52 companies from 56 (Page 5).

Carbon Disclosure: Who's Participating? We've included a summary of our work around carbon disclosures on Pages 2-3. In total, **42%** of the companies in our scorecard (22/52) met carbon disclosure requirements within our model. While we're encouraged by the level of initial participation, there's clearly room improvement. To that point, we're aware of several companies still the process of aggregating, auditing, and (eventually) disclosing relevant carbon data to investors, which should continue to improve the participation level in subsequent scorecards.

Superior Governance Translates To Outperformance:

- Companies with the ***strongest ESG*** scores (**EGLE**, **INSW**, **ASC**, **TRTN**, **GNK**, **EURN**, **OSG**, **MATX**, **GRIN**, **GLOG**, **INT**, **GLNG**, and **KEX**) ***outperformed*** the group by **16%** on a 5-year basis and **41%** since inception.
- Companies with the ***weakest ESG*** scores (**CMRE, KNOP, TGP, CPLP, NMM, NNA, DSX, DLNG, GSL, DAC, TNP, GASS,** and **SB**) ***underperformed*** the group by **(24%)** on a 3-year basis and **(25%)** since inception.

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Export Infrastructure

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Table of Contents

Webber Research: 2020 ESG Scorecard Summary

Figure 1. ESG Scorecard Rankings For 2020

2020 ESG Scorecard Rankings

	Company	2020	2019	Δ Up/ (Down)		Company	2020	2019	Δ Up/ (Down)
Quartile 1	EGLE	1	1	-	Quartile 3	BWLPG-NO	27	34	7
	INSW	2	2	-		SFL	28	25	(3)
	ASC	3	5	2		AVANCE-NO	29	32	3
	TRTN	4	4	-		TGH	30	15	(15)
	GNK	5	9	4		HUNT-NO	31	27	(4)
	EURN	6	7	1		ATCO	32	33	1
	OSG	7	3	(4)		HMLP	33	30	(3)
	MATX	8	6	(2)		SBLK	34	41	7
	GRIN	9	18	9		DSSI	35	38	3
	GLOG	10	12	2		GMLP	36	36	-
	INT	11	11	-		SALT	37	45	8
	GLNG	12	19	7		NAT	38	35	(3)
	KEX	13	8	(5)		STNG	39	49	10
Quartile 2	NVGS	14	10	(4)	Quartile 4	CMRE	40	42	2
	FRO	15	23	8		KNOP	41	47	6
	DHT	16	13	(3)		TGP	42	37	(5)
	GOGL	17	20	3		CPLP	43	48	5
	TK	18	21	3		NMM	44	43	(1)
	TRMD	19	31	12		NNA	45	44	(1)
	CAI	20	14	(6)		DSX	46	51	5
	FLNG	21	22	1		DLNG	47	50	3
	GLOP	22	26	4		GSL	48	46	(2)
	LPG	23	28	5		DAC	49	55	6
	CKH	24	16	(8)		TNP	50	52	2
	TNK	25	17	(8)		GASS	51	53	2
	NFE	26	24	(2)		SB	52	54	2

Carbon disclosures provided

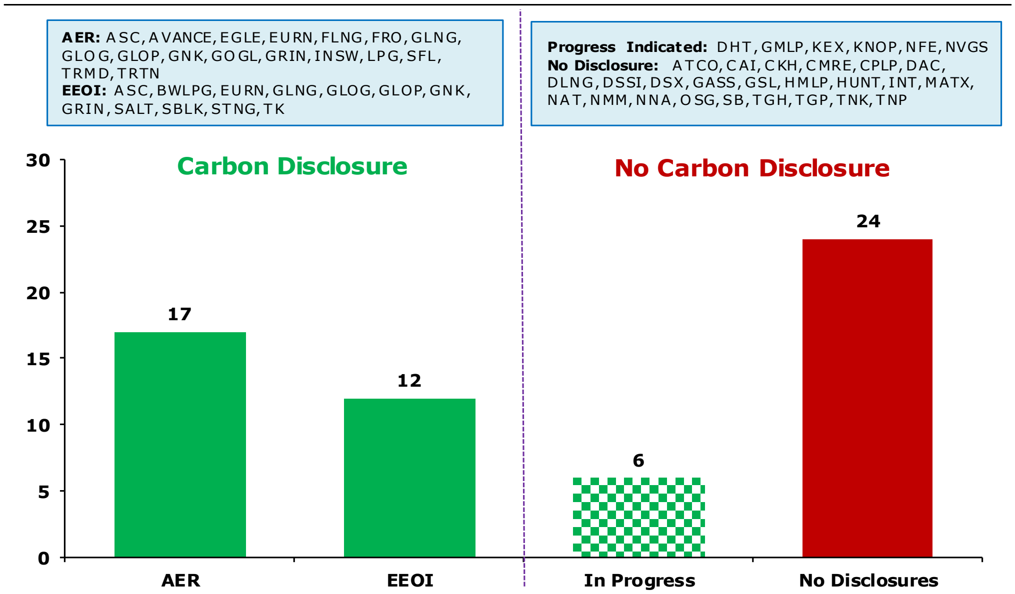
Source: Webber Research & Advisory, LLC estimates

Feedback & Intent. As a reminder, our scorecard does not measure intent, rather whether certain avenues exist that could misalign management and shareholder interests – hopefully providing a baseline from which investors can dig deeper. To that point, we think strong governance helps minimize the need for investors to delve into potential conflicts of interest, for which they're almost constantly at an informational disadvantage. Our model does not explicitly measure intent, nor will we be re-litigating whether entrenched related party relationships are ultimately symbiotic or parasitic for investors. **We believe the data is clear, the evolution is obvious, and the market's verdict is unambiguous** – decided long before we began publishing this scorecard.

What Is The Webber Research ESG Scorecard? Our scorecard ranks the public shipping universe on a number of corporate governance metrics (Page 11), with the goal of identifying both high quality shipping platforms and points of conflict based on those underlying factors. Our scorecard crystallizes a framework that's been core to our investment strategy and coverage, while also aimed at keeping conflicted entities from relying on *anonymity* or *indifference* to perpetuate what's become a consistent headwind for the sector.

Carbon Factor Details

Figure 2. ESG Scorecard: Carbon Data Disclosure Breakdown



1) Partial credit was given to TRTN for its sustainability report with alternative disclosures.
Source: Webber Research & Advisory, LLC, Company filings

Figure 3. ESG Scorecard: Carbon Data Notes

Carbon Disclosure Summary
17 out of 52 companies (33%) reported AER, a carbon intensity metric calculation in accordance with the IMO. (**ASC, AVANCE, EGLE, EURN, FLNG, FRO, GLNG, GLOG, GLOP, GNK, GOGL, GRIN, INSW, LPG, SFL, TRMD, TRTN**)
12 out of 52 companies (23%) reported EEOI, a more specific measure developed by the IMO to allow shipowners to measure the fuel efficiency of a ship in operation. (**ASC, BWLPG, EURN, GLNG, GLOG, GLOP, GNK, GRIN, SALT, SBLK, STNG, TK**)
6 of 52 companies (12%) are actively working on an ESG report – that we're aware of. (**DHT, GMLP, KEX, KNOP, NFE, NVGS**)
24 of 52 companies (46%) do not yet provide publicly available carbon data. (**ATCO**, **CAI, CKH, CMRE, CPLP, DAC, DLNG, DSSI, DSX, GASS, GSL, HMLP, HUNT, INT, MATX, NAT, NMM, NNA, OSG, SB, TGH, TGP, TNK, TNP**)
CPLP doesn't disclose its carbon data, however it's sponsor Capital Ship Management prepares an annual environmental report certified by Lloyd's Register that contains carbon disclosure for tankers under management (which includes both **CPLP** & **DSSI**). The disclosure does not include bulk carriers or containerships, nor is it broken out to be company specific. We note **DSSI** has been reporting its carbon data to members of its lending syndicate that have signed up for the Poseidon Principles.
DHT expects to publish a Sustainability report in late Q220 or early Q320.
GMLP expects to put publish a sustainability report in late Q2/Q3.
KEX expects to eventually publish select data at some point this summer.
NFE expects to develop a sustainability report by the end of 2020.
KNOP expects it's first Sustainability report to be finished by Q420.
TK currently discloses *consolidated* carbon disclosures within its 2019 Sustainability Report (**TGP** and **TNK** figures are not broken out separately). **TK** may look into disclosing by entity for next year's ESG report. For the purposes of our scorecard, **TK** received credit, while **TGP** & **TNK** did not.

Source: Webber Research & Advisory, LLC, Company filings

Notes & Outliers

The companies that had the **strongest** ESG scores within our framework were **EGLE**, **INSW**, **ASC**, **TRTN**, **GNK**, **EURN**, **OSG**, **MATX**, **GRIN**, **GLOG**, **INT**, **GLNG**, and **KEX** as noted in Figure 1.

The companies that had the **weakest** ESG scores within our model were **CMRE, KNOP, TGP, CPLP, NMM, NNA, DSX, DLNG, GSL, DAC, TNP, GASS,** and **SB** as noted in Figure 1.

Our subjective factor reflects history, frequency, and context that is inherently limited by the binary nature of certain data points and factors. We note that excluding our subjective factor (which carries a 12.5% weighting), the results would have been largely the same. In fact:

- *Excluding* our **subjective factor**, 10 out of the 13 top quartile (best ranked) names would have been the same.
- *Excluding* our **subjective factor**, 12 out of the 13 bottom quartile (worst ranked) names would have been the same.

Do We Look At Relative Operating Metrics Or Profitability? Sure, but not here. We look at a mosaic of factors when determining our broader equity ratings, and governance is certainly one of those. For the purposes of this piece, **we've intentionally kept the scope relatively narrow and well-defined**, to focus on an idea/risk that can be easily obfuscated or overrun by other dynamics like valuation and cyclicality. We know some make the argument that conflicted or related-party structures may have competitive G&A, OPEX, or other efficiencies – a position held almost exclusively by direct beneficiaries of those structures or their representatives. While that may be true in select cases, it's also beside the point (at best) and misdirection (at worst). We believe whether or not a related party structure is being abused is simply a debate public equity investors shouldn't have to entertain, and certainly not for free. Those legacy related-party relationships may save money in some cases, but we think there's a larger (growing) price-tag for the window they leave open for conflicts. Ultimately, we believe the risk premiums associated with poor governance and capital stewardship can (and should) continue to widen, eventually pricing-out conflicted players or antiquated structures from the public markets.

Changes To Our Rankings:

- As with prior iterations of our scorecard, there tended to be three primary clusters of scores: the leading group, a large middle section, and a small group at the bottom (**Page 2**).
- **Updated Universe.** We've removed **NM** (market cap hurdle), **SDLP** (delisted), **TOO** (acquired by Brookfield), and **DRYS** (taken private). **ATCO** replaces is predecessor **SSW**.
- **Quartile 1:** The composition of Quartile 1 remained relatively consistent y/y, with **11** of the top 13 names remaining the same. **EGLE** (1), **INSW** (2), **ASC** (3), and **TRTN** (4) remain at the top of the list, while **GNK** (5) climbed 4 spots and into the top 5. **GRIN** (9) and **GLNG** (12) jumped 9 and 7 spots, respectively into Quartile 1, due in part to their carbon disclosures. We note Quartile 1 scores are tightly clustered, with small changes driving most of the movement referenced above.
- **Quartile 2:** Saw 30% turnover with **NVGS** (14), **DHT** (16), and **CAI** (21) sliding down from Quartile 1, largely due to a lack of carbon disclosures. **TRMD** (19) jumped 12 spots from Quartile 3 on the back several factors.
- **Quartile 3:** **SFL** (28), **TGH** (30), and **HUNT** (31) slid from Quartile 2 into Quartile 3, with **TGH** slipping significantly due to a number of factors, including weaker independent director representation. We note **SALT** (37) and **STNG** (39) both moved up to into Quartile 3 from Quartile 4, as both disclosed carbon metrics.
- **Quartile 4:** Quartile 4 remained +90% consistent with **TGP** (42) sliding 5 spots from the bottom of Quartile 3 into the top of Quartile 4, due to a lack of company specific carbon disclosures and aggressive related party dealings during the quarter. Outside of **DRYS**, which was removed from the scorecard after being taken private in 2019, the bottom 4 companies remain the same: **DAC** (49), **TNP** (50), **GASS** (51), and **SB** (52).

Recent Developments & Data Updates

Figure 4. Recent (Select) Company Specific Changes

Ticker	Commentary
ATCO	Adjusted ATCO/SSW score reflects its related party APR transaction from Fairfax Financial.
NVGS	We are adjusting NVGS's score to reflect the separation between CEO and Chairman. On 8/22/19, Harry Deans was appointed CEO while former Chairman & CEO, David Butters continues to serve as Chariman.
TRMD	Adjusted TORM's score to reflect updated treatement of related party transactions.
CPLP & DSSI	CPLP doesn't disclose its carbon data, but its vessel sponsor Capital Ship Management Corp prepares an annual environmental report certified by Lloyd's Register that contains carbon disclosure for tankers under management (Includes both CPLP & DSSI). The disclosure however does not include bulk carriers or containerships. In addition, DSSI has been reporting its carbon data to members of its lending syndicate that have signed up for the Poseidon Principles.
DHT	Carsten Mortensen (CEO of BW Group) resigned from the board in 2018 - replaced by Anders Onarheim, who resigned in 2019, and was not replaced, reducing board member count to 5 from 6.
ASC	Dr. Peter Swift (independent) retired from the board in 2020.
ATCO	Alistair Buchanan (independent) joined the board in 2020.
AVANCE-NO	Christian Fallesen (independent) joined board in 2020
CAI	Masaaki Nishibori (former CEO) retired from the board in 2019.
CKH	Gail B. Harris (independent) joined the board in 2020.
DSX	Andreas Michalopoulos (ex-CFO) and Christos Glavanis (independent) left the board in 2020
EURN	Paddy Rogers (ex-CEO) left the board in 2019
GASS	Lambros Babilis (ex-CEO of Stealth Maritime Corporation) resigned from the board in 2019
GNK	Daniel Y. Han (independent) resigned from the board in 2020
INT	J. Thomas Presby (independent) retired from the board in 2019
OSG	Rebecca DeLaet (independent) joined the board following the 2020 AGM.
SFL	Kathrine Astrup Fredriksen (not independent) joined the board in 2020
TGH	Adjusted TGH's score to include Dudley Cottinghman as an independent director.
TGP	David Schellenberg and Richard Paterson joined the board in 2019 and are both non-independent directors.
TK	In 2019, Peter Antturi and Kenneth Hvid joined the board and treated as non-independent directors, and Sean Day retired from the board.
TNK	In 2019 David Schellenberg (Chair of TK) joined the board and Bjorn Moller (Director of TK) and Richard J.F. Bronks (independent) retired from the board.
TRMD	Annette Malm Justad (independent) joined the board in 2020

Source: Webber Research & Advisory, LLC, Company filings

Corporate Governance Quality & Returns

Better Corporate Governance Remains Tied To Better Performance. As noted in Figure 3, companies in Quartiles 1 & 2 have significantly **outperformed** Quartiles 3 & 4 on a 1, 3, 5, and 10-year basis by an average of **~9%**. While we believe cyclical pressure has impacted the longer-term returns across the board, we believe this relative outperformance reflects the general idea that sound corporate governance policies are consistently associated with stronger returns.

Figure 5. Price, Performance, And Rating By Quartile Rank

2020 ESG Scorecard Rankings

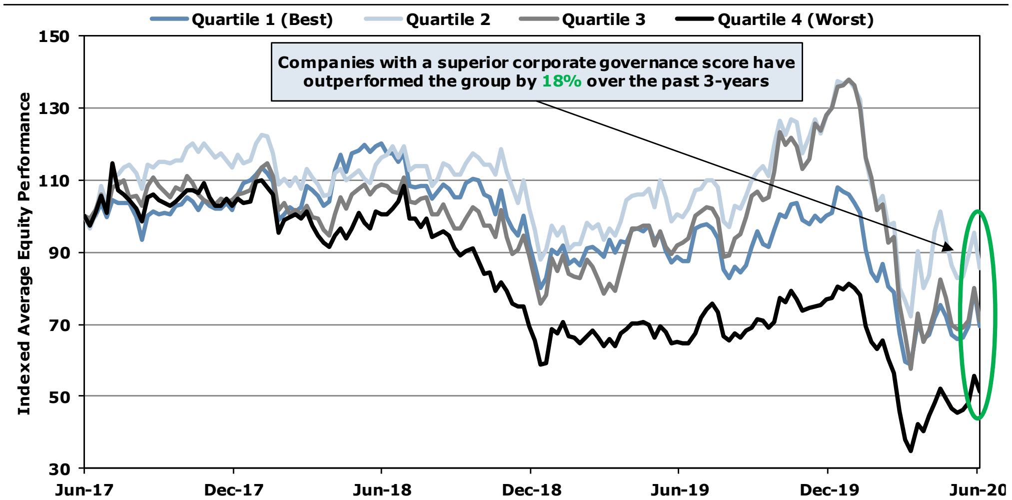
	Ticker	Rating	Price 6/15/20	% Total Return YTD	1 Year	3 Year	5 Year	Since Inception/10-Year[1]
Quartile 1	EGLE	Not Rated	$2.46	(45%)	(48%)	(45%)	(69%)	(69%)
	INSW	Not Rated	$19.71	(34%)	15%	1%	100%	100%
	ASC	Outperform	$4.93	(45%)	(22%)	(35%)	(55%)	(58%)
	TRTN	Market Perform	$30.55	(21%)	4%	16%	32%	163%
	GNK	Not Rated	$6.64	(34%)	(0%)	(24%)	(91%)	(95%)
	EURN	Outperform	$9.14	(20%)	24%	47%	(11%)	(26%)
	OSG	Not Rated	$2.16	(7%)	30%	(11%)	(26%)	(26%)
	MATX	Not Rated	$29.84	(25%)	(16%)	7%	(18%)	29%
	GRIN	Not Rated	$2.91	(57%)	(39%)	(83%)	(83%)	(83%)
	GLOG	Market Perform	$3.40	(64%)	(71%)	(70%)	(78%)	(61%)
	INT	Not Rated	$25.35	(41%)	(24%)	(27%)	(46%)	5%
	GLNG	Market Perform	$8.12	(45%)	(51%)	(59%)	(82%)	3%
	KEX	Market Perform	$54.32	(39%)	(32%)	(16%)	(29%)	32%
	Average			**(37%)**	**(18%)**	**(23%)**	**(35%)**	**(7%)**
Quartile 2	NVGS	Outperform	$7.03	(47%)	(25%)	(2%)	(64%)	(65%)
	FRO	Outperform	$8.08	(29%)	22%	71%	10%	10%
	DHT	Outperform	$5.85	(22%)	22%	80%	7%	(77%)
	GOGL	Not Rated	$3.85	(30%)	(12%)	(28%)	(73%)	(77%)
	TK	Not Rated	$2.73	(48%)	(11%)	(47%)	(93%)	(87%)
	TRMD	Not Rated	$7.20	(31%)	(19%)	(5%)	(5%)	(5%)
	CAI	Market Perform	$18.34	(37%)	(22%)	(14%)	(15%)	30%
	FLNG	Not Rated	$4.72	(56%)	(56%)	(58%)	(58%)	(53%)
	GLOP	Market Perform	$4.51	(67%)	(74%)	(70%)	(68%)	(67%)
	LPG	Outperform	$8.21	(46%)	(1%)	12%	(44%)	(56%)
	CKH	Not Rated	$30.23	(34%)	(29%)	(9%)	(26%)	12%
	TNK	Not Rated	$16.07	(35%)	84%	24%	(67%)	(72%)
	NFE	Not Rated	$13.00	(12%)	28%	(1%)	(1%)	(1%)
	Average			**(38%)**	**(7%)**	**(4%)**	**(38%)**	**(39%)**
Quartile 3	BWLPG-NO	Not Rated	$2.99	(62%)	(26%)	12%	(38%)	(28%)
	SFL	Not Rated	$10.04	(29%)	(10%)	5%	2%	44%
	AVANCE-NO	Not Rated	$1.95	(64%)	(21%)	(9%)	(79%)	(75%)
	TGH	Not Rated	$8.58	(19%)	(13%)	(35%)	(67%)	(53%)
	HUNT-NO	Not Rated	$0.35	(43%)	(9%)	(5%)	(35%)	(90%)
	ATCO	Not Rated	$7.63	(44%)	(13%)	61%	(45%)	22%
	HMLP	Not Rated	$9.96	(33%)	(36%)	(26%)	(24%)	(24%)
	SBLK	Not Rated	$6.70	(41%)	(13%)	(14%)	(54%)	(88%)
	DSSI	Not Rated	$9.35	(45%)	(18%)	(15%)	(15%)	(15%)
	GMLP	Underperform	$2.98	(63%)	(69%)	(77%)	(79%)	(71%)
	SALT	Not Rated	$18.34	(71%)	(52%)	(67%)	(90%)	(98%)
	NAT	Not Rated	$4.97	8%	142%	(2%)	(48%)	(64%)
	STNG	Not Rated	$16.36	(58%)	(34%)	(53%)	(80%)	(82%)
	Average			**(43%)**	**(13%)**	**(17%)**	**(50%)**	**(48%)**
Quartile 4	CMRE	Not Rated	$5.13	(45%)	8%	(5%)	(62%)	(16%)
	KNOP	Not Rated	$14.72	(21%)	(13%)	(12%)	9%	34%
	TGP	Market Perform	$12.55	(16%)	0%	0%	(53%)	(24%)
	CPLP	Not Rated	$8.73	(31%)	(6%)	(9%)	(54%)	(16%)
	NMM	Not Rated	$7.58	(55%)	(30%)	(63%)	(94%)	(93%)
	NNA	Not Rated	$4.59	(42%)	(11%)	(67%)	(83%)	(87%)
	DSX	Not Rated	$1.75	(43%)	(45%)	(50%)	(75%)	(86%)
	DLNG	Not Rated	$2.79	31%	77%	(75%)	(76%)	(72%)
	GSL	Not Rated	$4.53	(47%)	(36%)	(55%)	(90%)	(81%)
	DAC	Not Rated	$4.20	(55%)	(59%)	(79%)	(95%)	(93%)
	TNP	Not Rated	$2.52	(45%)	(20%)	(34%)	(69%)	(73%)
	GASS	Not Rated	$2.83	(18%)	(14%)	(6%)	(58%)	(44%)
	SB	Not Rated	$1.28	(25%)	(9%)	(44%)	(58%)	(78%)
	Average			**(32%)**	**(12%)**	**(38%)**	**(66%)**	**(56%)**
	S&P 500		**$3,066.59**	**-6%**	**6%**	**26%**	**47%**	**175%**

Marine names with top-tier governance have Outperformed on a YTD, 1, 3, 5, & 10-year basis

[1] 10-year performance used in lieu of since-inception data when applicable
Source: FatSet, Webber Research & Advisory, LLC

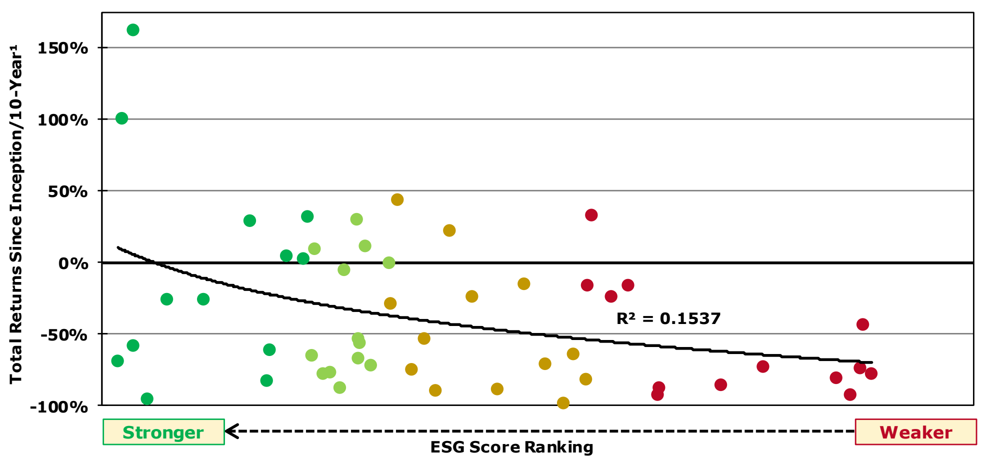
Stronger Corporate Governance Has Generally Been Associated With Stronger Returns. As noted in Figure 4, stocks scoring within Quartiles 1 & 2 of our scorecard generally **outperformed** companies in Quartiles 3 & 4 by 6% YTD, 4% on a 1-year basis, and 18% on a 3-year basis. We note stocks in Quartile 4 generally **underperformed** the group (down **47%** over the past three years, S&P +26%).

Figure 6. Average Equity Performance By ESG Quartile Ranking



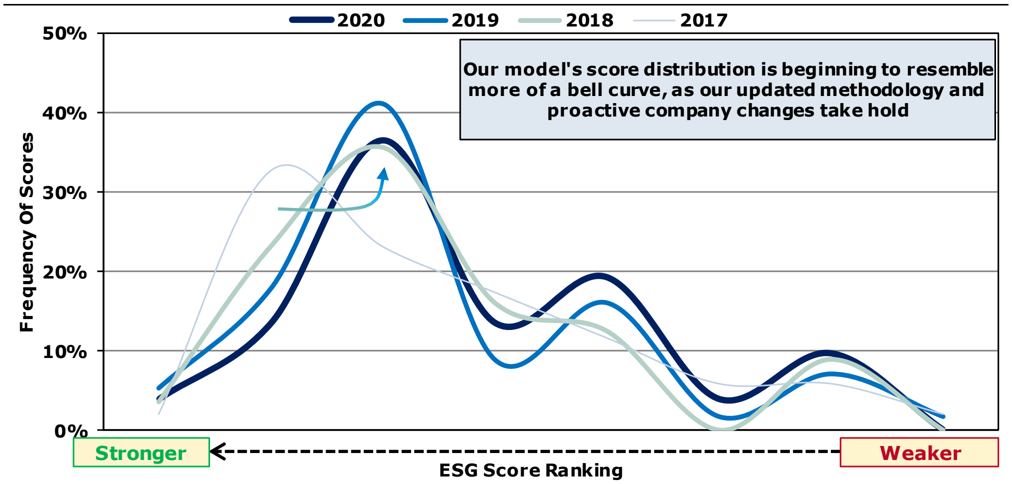
Source: FactSet, Webber Research & Advisory, LLC

Figure 7. Total Return Since Inception/10-Year[1] Vs. Scorecard Ranking



[1] 10-year performance used in lieu of since-inception data when applicable
Source: FactSet, Company filings, Webber Research & Advisory, LLC estimates

Figure 8. ESG Score Distribution Trending Y/Y



Source: Company filings, Webber Research & Advisory, LLC estimates

Scorecard Rationale

The purpose of the scorecard is to provide a baseline, comparable quantitative and qualitative corporate governance ranking across the Marine universe. We use a proprietary factor model built on eight quantitative and qualitative inputs that places Marine names into quartile rankings (Quartile 1 being our highest ranking in the model). Our model is centered on measuring corporate governance controls, with (1) related-party commercial and (2) technical management fees, (3) S&P fees, (4) related-party transactions, (5) level of board independence, (6) board composition, (7) board policies, and (8) our new **Carbon Factor**. We also add a subjective factor (9) to capture dynamics, context, or risks that are missed by the inherently binary aspect of some of our metrics. Our model creates a cumulative value, or ranking for each company in each category, and, for example, if a Marine stock scores poorly (Quartile 4), we believe the corporate governance profile of that name should probably receive extra scrutiny. Thus, an investor would need to price this lower degree of corporate governance (and associated risk) appropriately (i.e., pay a lower price/valuation). In contrast, we believe Quartile 1 Marine names are more likely to fetch a relative valuation premium based on higher underlying quality indicated by our scorecard.

How Should The Scorecard Be Used?

We believe our scorecard can be used as a tool to help evaluate degrees of corporate governance across shipping sectors and individual companies. While there are obviously dozens of risk factors and fundamentals on both a company and an industry basis that go into making an investment decision, we believe corporate governance is too often either overlooked or mispriced. All else equal, we believe companies in Quartile 1 generally screen more favorably than the lower quartiles, presenting stronger governance standards than many of their peers. Our primary goal for this scorecard is to help clients better understand the varying degrees of governance risk across the shipping space, enabling investors to differentiate among investment alternatives, and provide a relative baseline for further work.

What It Is Not?

Our ESG scorecard is not an indication that an investor should only invest in Quartile 1 Shipping companies, as we believe governance is one factor among several risks or fundamentals to be considered, along with a specific investor's risk appetite and investment goals. We note that industry dynamics (be it Tankers, LNG, Containers, etc.) play a very large role in our formal, cumulative ratings and investment process, and are not necessarily captured within the narrower scope of this scorecard.

Corporate Governance Methodology

In our 2016 Corporate Governance rankings, we identified five factors to capture some of the basic elements of corporate governance and conflicts of interest, particularly as they pertain to shipping. Specifically, we used **(1) Related Party Commercial Management, (2) Related Party Technical Management, (3) Sale and Purchase (S&P) Fees,** the history of **(4) Related Party Transactions,** as well as the **(5) Independence Level of Boards.**

In 2017, we expanded the scope of our analysis to include several additional measures to evaluate how a Board of Directors is composed/structured, as well as its functions and policies, **with the overarching goal of evaluating their alignment with shareholders.** Specifically, we added two factors: **(1) Board Composition** and **(2) Board Policy** to our scorecard, while also adding additional criteria to another factor, **(3) Board Independence,** to help give the evaluation more depth and context.

For 2020 we have included a **Carbon Factor** as the 9th factor in our proprietary ESG model. Our 2020 framework only evaluates whether the appropriate carbon data is *disclosed* – we have yet to draw any qualitative or quantitative conclusions from that data – ***however, we may over time***. The relevant data we looked for is laid out on pages 15-16 of the Poseidon Principles and consists of:

1) an **Annual Efficiency Ratio (AER)** on an *aggregate* or *vessel specific* basis

2) an **Annual Energy Efficiency Operational Indicator (EEOI)** on an *aggregate* or *vessel specific* basis

Figure 9. Our Current ESG Scorecard Factors

	First-Gen **Corporate Governance Factors**	**Weight**
Factor #1	Related Party Commercial Management	16.7%
Factor #2	Related Party Technical Management	16.7%
Factor #3	Sale And Purchase Fees	16.7%
Factor #4	Related Party Transactions	16.7%
Factor #5	Independent Board Membership	16.7%
Factor #6	Subjective	16.7%

	Second-Gen **Corporate Governance Factors**	**Weight**
Factor #1	Related Party Commercial Management	12.5%
Factor #2	Related Party Technical Management	12.5%
Factor #3	Sale And Purchase Fees	12.5%
Factor #4	Related Party Transactions	12.5%
Factor #5	Board Independence	15.0%
Factor #6	Board Composition	10.0%
Factor #7	Board Policy	12.5%
Factor #8	Subjective	12.5%

	Third-Gen **ESG Factors**	**Weight**
Factor #1	Related Party Commercial Management	8.8%
Factor #2	Related Party Technical Management	8.8%
Factor #3	Sale And Purchase Fees	8.8%
Factor #4	Related Party Transactions	8.8%
Factor #5	Board Independence	12.5%
Factor #6	Board Composition	10.0%
Factor #7	Board Policy	10.0%
Factor #8	Carbon Factor	20.0%
Factor #9	Subjective	12.5%

Source: Webber Research & Advisory, LLC

Under the revised methodology we have maintained our emphasis on related party transactions relationships, however we've however we've lowered the aggregate weighting for our first 4 factors to 35% (from 50%) – largely to account for our new **Carbon Factor**, which carries a 20% weighting. We've also lowered our **Board Independence Factor** weighting to 12.5% from 15%, and our Board Policy Factor to 10%, from 12.5%.

Factor Details

Factor #1: Related Party Commercial Managers (8.75%). Commercial management covers the marketing, chartering, operations, and trading of vessels in the spot or time-charter market. While commercial management can be provided by wholly owned subsidiaries; it is commonplace in the industry for companies to outsource commercial management to third-party managers who charge a daily fee on a per vessel basis (with those fees ranging widely from $300 - $2,000/day across our Shipping universe). These management agreements can be with either public or private managers, which may be either related or unrelated parties, potentially creating conflicts of interest given the difficulty of comping the value of services within these arrangements. Commercial relationships with wholly owned subsidiaries or to unrelated third parties generally provide the least degree of potential conflicts of interest, while related party management presents higher potential risk for shareholders given those conflicts. Within related party commercial management structures, we believe the degree of the risks from conflicting interests are partially offset via public-to-public relationships given the greater degree of visibility on both ends of the agreement, while we view public-to-private related party arrangements as the least desirable. Additionally, given the presence of related party management relationships as an inherent aspect of the GP/MLP structure, our related party commercial management factor rankings are less punitive across the GP/MLP group so far as the arrangements are within the bounds of the typical GP/MLP relationship, and both entities are public.

Factor #2: Related Party Technical Managers (8.75%). Technical management includes providing vessel maintenance, arranging and supervising newbuilding construction, dry-docking, repairs, capital improvements, and maintaining vessel safety management systems. While technical management can be provided internally by wholly owned subsidiaries; it is common place in the industry for companies to outsource technical management to either related or unrelated third-party managers who charge a daily fee on a per vessel basis (with those fees ranging widely from $250 - $1,000/day across our Shipping universe). Relationships with wholly owned subsidiaries or to unrelated third parties generally provide the least degree of potential conflicts of interest, while related party management presents a higher degree of potential risk for shareholders. We believe the degree of the risks from conflicting interests are partially offset via public-to-public relationships given the greater degree of visibility on both ends of the agreement, while we view public-to-private related party arrangements as the least desirable. As with commercial management, the presence of related party management relationships is an inherent aspect of the GP/MLP structure, our related party factor rankings are less punitive across the GP/MLP group, and both entities are public.

Factor #3: Sale And Purchase Fees (8.75%). Shipping companies often have Sale & Purchase fee arrangements, whereby management directly (or indirectly via a related third-party) receives a fee for any newbuild orders, asset sales, or purchases at the company level, with these S&P fees typically ranging from 1-1.25% of the total transaction value. We view the presence of these S&P fee arrangements as a major red flag, and a reflection of lower quality corporate governance given weaker alignment of shareholder and management interests. We believe S&P arrangements between related parties often incentivize investment decisions based on deal size and frequency, rather than returns.

Factor #4: Related Party Transactions (8.75%). We also scrutinize related party transactions, as we believe they create similar (very significant) conflicts of interest for management, with the potential for transaction values to deviate from market prices given the incentives for premium valuations charged between the two parties (and higher risk). This most readily presents itself via acquisitions from private fleets or related entities, with a number of Dry Bulk, Tanker, and Containership owners acquiring or selling assets to their private fleets.

Factor #5: Board Independence (12.5%). We view board independence as a factor that is highly reflective of strong corporate governance controls. As such we believe it is important to differentiate between the varying levels of independent board membership across the shipping space. Additionally, within our recent scorecard rankings we have expanded our underlying variables from solely independent board membership to also reflect executive participation at the Board level and board member tenures.

- **Rationale:** We favor active, knowledgeable boards that are heavily weighted with independent directors. Boards run by insiders are more easily "captured" by management or otherwise promote interests that run counter to those of equity holders. Longer tenure of board members can improve the board's grasp of the company's business and strengthen their ability to challenge management. However, this rule of thumb is subject to diminishing returns: beyond a certain point, (10 years or longer in our model), high average tenure implies a lack of director turnover which may undermine the independence of the board.
- **Subfactors:**
    1) *Separated Chairman + CEO Roles:* We view separated Chairman and CEO roles as indicative of higher quality corporate governance, and penalize companies with an Executive Chairman role.
    2) *Executive Chairman And No Lead Director:* If there is an Executive Chairman role, we believe a Lead Independent Director in conjunction with the Executive Chairman role is indicative of higher quality corporate governance.
    3) *Degree of Board Independence:* We view a higher degree of Independent Directors as indicative of higher quality corporate governance, as it increases the likelihood of objectivity. We have compiled the independent board membership percentages across our universe into quartiles, with companies that have lower independent directorship percentages receiving more punitive scores in our model.
    4) *Length of Board Member Tenure:* We tend to view shorter Board Member tenures as indicative of higher quality corporate governance as they help prevent stale and trenched directorships – many of which tend to be non-independent. That said, we note that there is also a trade-off between length of tenure and experience.
    5) *Existence of Executive Sessions:* We believe Board Members should participate in Executive Sessions that exclude management, and we penalize companies that lack Executive Sessions in our model.

Factor #6: Board Composition (10.0%). We view the actual composition of a Board as a meaningful factor for perspectives and a diversity of skill sets that are generally a well-regarded best practice. While we believe Board Composition is very important (hence its inclusion), given how many basic and fundamental governance issues exist within the shipping space, we've modestly lowered this factor's weighting to accommodate additions to our model.

- **Subfactors:**
  1) *Utilization Of Specialized Committees:* Committees allocate specialized tasks such as the oversight of executive compensation to groups of directors. The committee structure will depend on the circumstances and priorities of a company.

  2) *Overboarding:* We believe Directors that hold several board seats can impact the quality of corporate governance should it lead to insufficient time to fulfill obligations, or if those Directors are stacked on the boards of related parties. We have adjusted this subfactor to account for the number of each company's board members that hold multiple board seats *within* our universe, and assigned the most punitive scores to companies with a higher number of "overboarded" Directors.

  3) *Age Diversity:* We view diversity across age ranges as another effective measure of adding perspective in support of higher quality corporate governance. As such, we have compiled the standard deviation of the age members across each company's Board of Directors into quartiles and we penalize companies with more concentrated age ranges.

  4) *Gender Diversity:* Diversity can enhance Board effectiveness by adding different perspectives and vantage points. As such we have a binary gender diversity variable within our model.

Factor #7: Board Policy (10.0%). We view the limitation of shareholder rights as one of the more important topics within corporate governance as companies can limit shareholder rights by conferring disproportionate voting rights to certain classes of shareholders. While such policies may protect directors from short-term activist investors seeking changes, they also restrict the ability of ordinary shareholders to hold management accountable, while most research also suggests that provisions that limit shareholder power contribute to lower valuations.

- **Subfactors:**
  1) *Staggered Board:* We believe a staggered board limits the ability of shareholders to hold directors accountable by having directors serve multiple-year terms at a time. Annual re-election or something similar tends to be best practice here.

  2) *Limited Shareholder Voting Rights:* We generally view limited shareholder voting rights arrangements as factors contributing to lower quality corporate governance, with those arrangements having a punitive impact on the Corporate Governance scores in our model.

  3) *Stockholder Rights Agreement/Poison Pill:* We generally view Poison Pills or other aggressively defensive mechanisms as unfriendly to common shareholders.

  4) *Blank Check Preferred Stock:* Similarly, we generally view Blank Check Preferred Stock as an aggressively defensive mechanism that is unfriendly to common shareholders.

Factor #8: Carbon Data (20%). Our 2020 framework only evaluates whether the appropriate carbon data is *disclosed* – we have yet to draw any qualitative or quantitative conclusions from that data – ***however, we may over time***. The relevant data we looked for is described within the Poseidon Principles and consists of:

1) an **Annual Efficiency Ratio (AER)** on an *aggregate* or *vessel specific* basis
2) an **Annual Energy Efficiency Operational Indicator (EEOI)** on an *aggregate* or *vessel specific* basis

We note both metrics are reported in ***grams of CO2 per ton-mile***, and the data required for **AER** metrics is already required by the IMO DCS (hence it should be readily available for most participants). We note we've made adjustments for certain companies in our universe for which AER data is less relevant – such as Box Lessors – who report different, but relevant data.

Factor #9: Subjective (12.5%). For our final factor, we assess dynamics that may be difficult to quantify amid our primary data sets, including history, context, and scale, as we believe the inherently binary nature of certain data points do not fully capture all of the relevant dynamics in play.

Appendix

To further supplement our Corporate Governance rankings, we have provided a detailed summary of our factor inputs (Commercial/Technical Management, S&P fees, Related Party Transactions, Independent Board Membership and our Subjective factor) to an individual company level.

Figure 10. Company Specific Overview

Ticker	Sector	Quartile 2020	Quartile 2019	Commercial Fees 2020	Commercial Fees 2019	Technical Fees 2020	Technical Fees 2019	S&P Fees / Commissions 2020	S&P Fees / Commissions 2019	Related Party Transactions[1] 2020	Related Party Transactions[1] 2019	% Independent Board 2020	% Independent Board 2019	Carbon Disclosure AER	Carbon Disclosure EEOI
CAI	Container	2	1	No	No	No	No	No	No	Yes	Yes	50%	57%	No	No
CMRE	Container	4	3	Yes	Yes	Yes	Yes	No	No	No	No	33%	40%	No	No
DAC	Container	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	57%	57%	No	No
GSL	Container	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	63%	63%	No	No
ATCO	Container	3	3	No	No	No	No	No	Yes	Yes	No	50%	57%	No	No
TGH	Container	3	2	No	No	No	No	No	No	Yes	Yes	13%	13%	No	No
TRTN	Container	1	1	No	No	No	No	No	No	No	No	78%	80%	Yes	No
MATX	Container	1	1	No	No	No	No	No	No	No	No	71%	71%	No	No
DSX	Dry Bulk	4	4	No	No	No	No	Yes	Yes	Yes	Yes	56%	55%	No	No
EGLE	Dry Bulk	1	1	No	No	No	No	No	No	No	No	83%	83%	Yes	No
GNK	Dry Bulk	1	1	No	No	No	No	No	No	No	No	38%	56%	Yes	Yes
GOGL	Dry Bulk	2	2	No	No	Yes	Yes	No	No	Yes	Yes	20%	20%	Yes	No
GRIN	Dry Bulk	1	2	No	No	No	No	No	No	Yes	Yes	71%	38%	Yes	Yes
SALT	Dry Bulk	3	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	75%	75%	No	Yes
SB	Dry Bulk	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	43%	43%	No	No
SBLK	Dry Bulk	3	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	60%	60%	No	Yes
DLNG	LNG	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	40%	40%	No	No
FLNG	LNG	2	2	No	No	Yes	No	No	No	Yes	Yes	40%	50%	Yes	No
GLNG	LNG	1	2	No	No	No	No	No	No	Yes	Yes	57%	57%	Yes	Yes
GMLP	LNG	3	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	71%	No	No
HMLP	LNG	3	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	57%	No	No
NFE	LNG	2	2	No	No	No	No	No	No	Yes	Yes	75%	75%	No	No
TGP	LNG	4	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	33%	50%	No	No
GLOG	LNG	1	1	No	No	No	No	No	No	Yes	Yes	44%	50%	Yes	Yes
GLOP	LNG	2	2	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	57%	Yes	Yes
AVANCE-NO	LPG	3	3	Yes	Yes	No	No	No	No	Yes	Yes	75%	67%	Yes	No
BWLPG-NO	LPG	3	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	67%	67%	No	Yes
GASS	LPG	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	75%	60%	No	No
LPG	LPG	2	2	No	No	No	No	No	No	Yes	Yes	57%	71%	Yes	No
NVGS	LPG	2	1	No	No	No	No	No	No	No	No	43%	71%	No	No
INT	Bunker	1	1	No	No	No	No	No	No	No	No	63%	67%	No	No
CKH	US Marine	2	2	No	No	No	No	No	No	Yes	Yes	67%	60%	No	No
KEX	US Marine	1	1	No	No	No	No	No	No	Yes	No	80%	78%	No	No
OSG	US Marine	1	1	No	No	No	No	No	No	No	No	89%	88%	No	No
CPLP	Marine MLP/GP	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	71%	71%	No	No
KNOP	Marine MLP/GP	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	57%	No	No
TK	Marine MLP/GP	2	2	No	No	No	No	No	No	Yes	Yes	43%	75%	No	Yes
NMM	Marine MLP/GP	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	57%	No	No
ASC	Tanker	1	1	No	No	No	No	No	No	No	No	83%	83%	Yes	Yes
DSSI	Tanker	3	3	Yes	Yes	Yes	Yes	No	No	No	No	57%	29%	No	No
INSW	Tanker	1	1	No	No	No	No	No	No	No	No	78%	78%	Yes	No
TRMD	Tanker	2	3	No	No	No	No	No	No	No	Yes	60%	60%	Yes	No
STNG	Tanker	3	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	67%	67%	No	Yes
NNA	Tanker	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	63%	No	No
TNK	Tanker	2	2	No	No	No	No	No	No	Yes	Yes	40%	50%	No	No
DHT	Tanker	2	1	No	No	No	No	No	No	No	No	60%	50%	No	No
EURN	Tanker	1	1	No	No	No	No	No	No	No	No	83%	71%	Yes	Yes
FRO	Tanker	2	2	No	No	No	No	No	No	Yes	Yes	0%	0%	Yes	No
HUNT-NO	Tanker	3	2	No	No	No	No	No	No	Yes	Yes	33%	33%	No	No
NAT	Tanker	3	3	No	No	No	No	No	No	Yes	Yes	60%	60%	No	No
SFL	Tanker	3	2	Yes	Yes	Yes	Yes	No	No	Yes	Yes	50%	60%	Yes	No
TNP	Tanker	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	67%	67%	No	No

[1] We note the majority of changes within our Related Party Transactions stem from the treatment of administrative and office leases

Source: Webber Research & Advisory, LLC estimates, Company filings

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