Corporate Governance Scorecard
Volume V - 2018

Shipping

- **2018 Scorecard – Updated Rankings, Same Idea.** Before we delve into our updated rankings, framework, and company specific changes, we want to reiterate the idea that underpins this entire exercise, 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 the public markets.
- **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 Wells Fargo Shipping Scorecard?** Our scorecard ranks the public shipping universe on a number of corporate governance metrics (Page 8), 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.
- **Same Model, Slightly Bigger Universe.** We've expanded our scorecard to 56 companies (from 52), adding **TRMD**, **INT**, **ANW**, **GSL**, **NAO**, and **SHIP**, while removing **DCIX** and **ESEA** due to our market cap hurdle. We've kept the framework for our 2018 model intact y/y, including last year's additions of Composition, Policy, and expanded Board Independence criteria, in continued collaboration with corporate governance consulting firm Penmon. We're also moving to an annual publication schedule, to better mirror the inherent pace of changes within corporate structures.

Superior Governance Translates To Outperformance:

- Companies with the ***strongest corporate governance*** scores (**EGLE**, **INSW**, **OSG**, **TRTN**, **MATX**, **NVGS**, **ASC**, **EURN**, **GLOG**, **DHT**, **KEX**, **TGH**, **INT**, and **GNK**) ***outperformed*** the group by **21%** on a 1-year basis and **60%** on a 5-year basis.
- Companies with the ***weakest corporate governance*** scores (**DRYS**, **GASS**, **DAC**, **TNP**, **SB**, **DSX**, **DLNG**, **ANW**, **CPLP**, **CMRE**, **STNG**, **KNOP**, **SALT**, and **NNA**) ***underperformed*** the group by **(24%)** on a 1-year basis and **(21%)** on a 5-year basis.

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The 2018 Scorecard Summary

Figure 1. Shipping Corporate Governance Scorecard Rankings – 2018

2018 Shipping Corporate Governance Rankings										
	Company	**H118**	**H217**	***Δ Up/ (Down)***		**Company**	**H118**	**H217**	***Δ Up/ (Down)***
Quartile 1	EGLE	**1**	2	*1*	**Quartile 3**	FRO	**29**	27	*(2)*
	INSW	**2**	5	*3*		GMLP	**30**	32	*2*
	OSG	**3**	4	*1*		SSW	**31**	22	*(9)*
	TRTN	**4**	3	*(1)*		TRMD	**32**	New	
	MATX	**5**	6	*1*		HMLP	**33**	28	*(5)*
	NVGS	**6**	8	*2*		LPG	**34**	30	*(4)*
	ASC	**7**	9	*2*		TGP	**35**	29	*(6)*
	EURN	**8**	12	*4*		SDLP	**36**	34	*(2)*
	GLOG	**9**	7	*(2)*		NM	**37**	35	*(2)*
	DHT	**10**	15	*5*		NAP	**38**	33	*(5)*
	KEX	**11**	13	*2*		SHIP	**39**	New	
	TGH	**12**	11	*(1)*		NMM	**40**	37	*(3)*
	INT	**13**	New			NAO	**41**	New	
	GNK	**14**	14	-		GNRT	**42**	36	*(6)*
Quartile 2	AVANCE	**15**	1	*(14)*	**Quartile 4**	NNA	**43**	40	*(3)*
	SBLK	**16**	10	*(6)*		SALT	**44**	41	*(3)*
	TNK	**17**	21	*4*		KNOP	**45**	38	*(7)*
	TK	**18**	17	*(1)*		STNG	**46**	42	*(4)*
	SFL	**19**	20	*1*		CMRE	**47**	45	*(2)*
	GLNG	**20**	18	*(2)*		CPLP	**48**	39	*(9)*
	CKH	**21**	24	*3*		ANW	**49**	New	
	GOGL	**22**	31	*9*		DLNG	**50**	43	*(7)*
	CAI	**23**	26	*3*		DSX	**51**	44	*(7)*
	NAT	**24**	16	*(8)*		SB	**52**	48	*(4)*
	GLOP	**25**	23	*(2)*		TNP	**53**	47	*(6)*
	TOO	**26**	25	*(1)*		DAC	**54**	50	*(4)*
	BWLPG	**27**	19	*(8)*		GASS	**55**	51	*(4)*
	GSL	**28**	New			DRYS	**56**	52	*(4)*

Source: Wells Fargo Securities, LLC estimates

Notes & Outliers

- The companies that had the **strongest** corporate governance scores within our framework were **EGLE**, **INSW**, **OSG**, **TRTN**, **MATX**, **NVGS**, **ASC**, **EURN**, **GLOG**, **DHT**, **KEX**, **TGH**, **INT**, and **GNK** as noted in Figure 1.
- The companies that had the **weakest** corporate governance scores within our model were **DRYS**, **GASS**, **DAC**, **TNP**, **SB**, **DSX**, **DLNG**, **ANW**, **CPLP**, **CMRE**, **STNG**, **KNOP**, **SALT**, and **NNA** as noted in Figure 1.
- Our subjective input factor reflects history, frequency, and context that is inherently limited by the other data points. 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**, 13 out of the 14 top quartile (best ranked) names would have been the same.
  - *Excluding* our **subjective factor**, 13 out of the 14 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 (corporate governance)**, 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 efficiency gains. We hear it. A lot. And usually with a high degree of conviction. And while we don't completely dismiss those arguments, we come back to the broader point that it's simply a debate and an issue that 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 top third, a large middle section, and a small group at the bottom.
  - We replaced **DCIX** and **ESEA** with **TRMD**, **INT**, **ANW**, **GSL**, **NAO**, and **SHIP** – effectively adding four new players to the Scorecard (net) – taking the universe of ranked stocks from 52 to 56. While our universe of companies expanded, we note the range of scores actually grew tighter, particularly within the top quartile.
  - We note that the additional names drove a significant amount of the movement in rankings, while expanding each quartile by one spot.
  - Quartile 1 and Quartile 4 both contracted in score ranges while Quartile 2 and 3 expanded, gradually transitioning toward what we believe is a natural bell curve (Figure 6).
  - **Quartile 1:** Two companies moved up to Quartile 1 (**GNK** and **DHT**) while two companies moved out of Quartile 1 and into the top of Quartile 2 (**AVANCE** and **SBLK**). New addition **INT** also ranked in Quartile 1.
  - **Quartile 2: AVANCE** and **SBLK** fell from Quartile 1 to the top of Quartile 2, due to a correction in our treatment of related party compensation for **AVANCE**'s management and due to related party acquisitions at **SBLK**. **GOGL** moved up to Quartile 2 (from Quartile 3) while **GSL** debuts in Quartile 2.
  - **Quartile 3: SSW** slipped into Quartile 3, from 22 to 31. **TRMD**, **SHIP**, and **NAO** debut in Quartile 3.
  - **Quartile 4:** No player from H217 made it out of Quartile 4. **KNOP** and **CPLP** slid from Quartile 3 into Quartile 4. **ANW** debuts in Quartile 4. **SB**, **TNP**, **DAC**, **GASS**, and **DRYS** remain firmly at the bottom of our quantitative rankings.

Recent Developments & Data Updates

Figure 2. Recent (Select) Company Specific Changes

Ticker	Commentary
ASC	ASC's Board was reduced from 8 to 7 Directors when Niall McComiskey resigned in December 2017 following the disposition of ASC holdings by GA Holdings, LLC.
CPLP	In 11/2017, Gurpal Grewal (Technical Director at Capital Ship Management, an affiliate of Capital Maritime) was appointed to the board by the General Partner (as non-independent director) - replacing Nikolaos Syntychakis (Managing Director at Capital Ship Management), who was also a non-independent director.
CPLP	In 2/2018, Eleni Tsoukala (independent, non-executive director) was appointed to the board following the resignation of Evangelis Bairactaris (a partner of a law firm advising CPLP/Capital Maritime) who we considered non-independent. These changes leave CPLP with 5 independent directors (up from 4). The total number of board members remains unchanged at 7.
DRYS	DRYS's Board increased from 5 to 6 Directors when George Kokkodis was appointed to the Board on 11/21/2107. We consider Kokkodis to be non-independent based on his prior tenure as a Director for Ocean Rig (2015-2017).
EGLE	EGLE's Board was reduced from 7 to 6 Directors when Casey Shanley (GoldenTree) resigned on December 13, 2017 after serving as a director since April, 2016.
LPG	We adjusted LPG's score to reflect the termination of its 2016 poison pill (Rights Agreement). On 1/26/18 Dorian announced it accelerated the expiration of its 2016 Shareholder Rights Agreement. At the time of the termination of the Rights Agreement, all of the Rights distributed to holders of LPG common stock pursuant to the Rights Agreement expired.
SBLK	On 5/14 SBLK announced it acquired 18 vessels, 3 of which were Newcastlemax newbuilds from Oceanbulk Container Carriers LLC (OCC), an entity related to the CEO (Pappas) for an aggregate 3.4MM SBLK common shares. We note the transaction has yet to close (expected Q2).
CAI	CAI's Board appointed Kathryn Jackson to serve as a Class II Director on 2/12/2018. On 4/5/2018, CAI's Board was increased to 8 from 6 Directors while concurrently appointing John Williford as a Class III Director and Andrew Ogawa as a Class II Director. We consider Jackson, Williford, and Ogawa all to be independent.
INSW	INSW's Board was increased from 8 to 9 Directors effective 4/12/2018 at their annual meeting. Current President and CEO, Lois Zabrocky is the new member nominated to the board (non-independent).
SSW	SSW's data reflects the acquisition of 89.2% of its GCI JV with Carlyle (closed 3/14/18), which we consider a related party transaction particularly given ownership positions in the JV at the board/management level at the time.
AVANCE	We've adjusted AVANCE's score to include a $0.6MM procurement expense for management, paid for by sponsor, Stolt Nielsen (~8.5%). We view this as a significant conflict, and something we missed in previous analysis.
ANW	ANW has made headlines in recent quarters over a proposed $367MM acquisition of port service assets from related parties, prompting shareholder litigation and ultimately a settlement with the deal being scrapped. In the months since, ANW has started to make some changes to their board, including the appointment of Donald Moore as Chairman (5/22), along with Raymond Batoszek (5/2) and Tyler Baron (5/2) - all of which are independent.
GLOG	We have adjusted GLOG's data to reflect the $159K paid to Ceres Monaco in 2017 (an entity controlled by related parties) for consulting services related to GasLog's investment in Gastrade.

Source: Company filings, Wells Fargo Securities, LLC

Corporate Governance Quality & Returns

- **Better Corporate Governance Remains Tied To Better Performance.** As noted in Figure 3, companies in **Quartile 1 have significantly outperformed** Quartiles 2-4, **with an average total return of 13% over the past 5-years**, compared to an **average 5-year total return of -47% for Quartiles 2-4** (vs. the 5-year total return for the S&P 500 of 64%). While we believe cyclical pressure has impacted those 5-year return totals across the board, we believe the **60% relative outperformance** (on a 5-year basis) reflects the general idea that higher degrees of corporate governance tend to lead to (or at least be consistently associated with) better returns.

Figure 3. Price, Performance, And Rating By Quartile Rank

2018 Shipping Corporate Governance Rankings

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

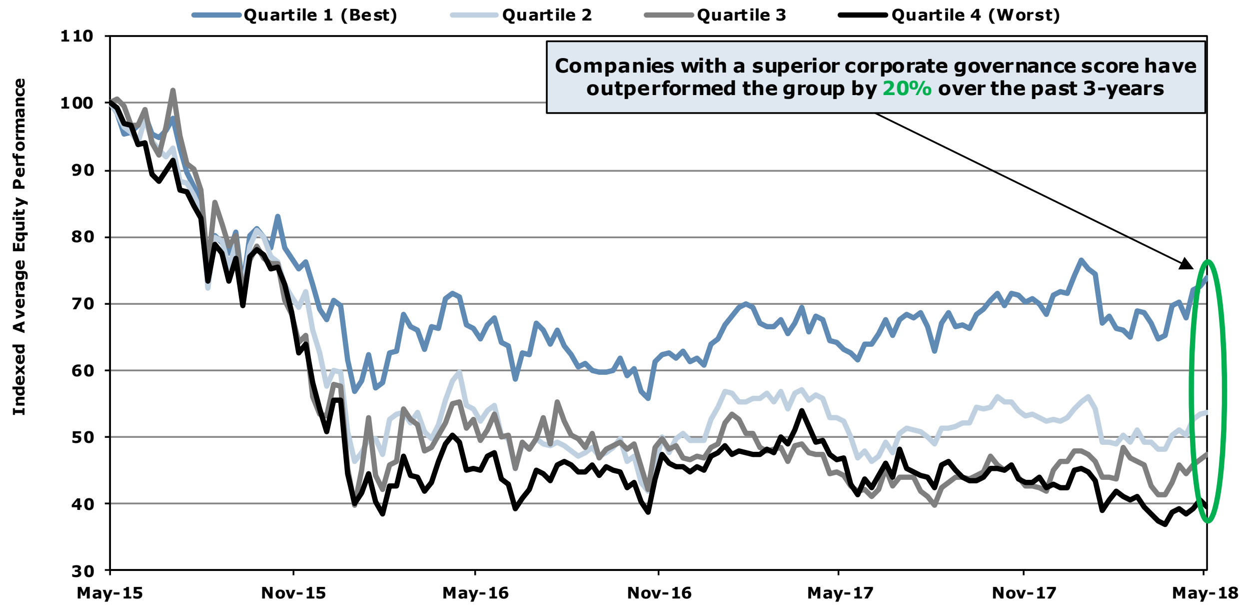
	Ticker	Rating	Price 5/21/18	% Total Return YTD	1 Year	3 Year	5 Year	Since Inception/10-Year[1]
Quartile 1	EGLE	Not Rated	$5.62	25%	13%	N/A	N/A	(29%)
	INSW	Not Rated	$19.24	1%	(8%)	N/A	N/A	49%
	OSG	Not Rated	$3.50	26%	6%	N/A	N/A	(52%)
	TRTN	Outperform	$36.85	(4%)	43%	N/A	N/A	164%
	MATX	Market Perform	$34.95	15%	22%	(12%)	50%	44%
	NVGS	Outperform	$11.10	7%	32%	(47%)	(23%)	(11%)
	ASC	Outperform	$8.05	(1%)	5%	(30%)	N/A	(32%)
	EURN	Outperform	$8.37	(11%)	8%	(29%)	89%	(72%)
	GLOG	Outperform	$18.60	(15%)	38%	(1%)	62%	82%
	DHT	Market Perform	$3.76	2%	(14%)	(41%)	6%	(86%)
	KEX	Outperform	$91.05	34%	36%	13%	10%	56%
	TGH	Market Perform	$17.95	(19%)	74%	(34%)	(43%)	37%
	INT	Not Rated	$22.05	(23%)	(40%)	(56%)	(46%)	90%
	GNK	Not Rated	$17.78	34%	67%	(74%)	N/A	(92%)
	Average			***5%***	***20%***	***(31%)***	***13%***	***11%***
Quartile 2	AVANCE	Not Rated	$2.58	(8%)	(11%)	(77%)	N/A	(70%)
	SBLK	Not Rated	$13.59	15%	53%	(14%)	N/A	(77%)
	TNK	Market Perform	$0.98	(27%)	(45%)	(83%)	(57%)	(90%)
	TK	Market Perform	$7.76	(20%)	23%	(82%)	(77%)	(78%)
	SFL	Not Rated	$14.45	(5%)	15%	28%	39%	22%
	GLNG	Outperform	$34.74	12%	26%	(25%)	9%	139%
	CKH	Not Rated	$53.33	12%	38%	23%	13%	56%
	GOGL	Not Rated	$8.29	(1%)	27%	(64%)	N/A	(60%)
	CAI	Outperform	$26.01	(12%)	38%	17%	(3%)	64%
	NAT	Market Perform	$2.16	(15%)	(68%)	(78%)	(65%)	(88%)
	GLOP	Outperform	$24.05	0%	12%	22%	N/A	30%
	TOO	Outperform	$2.61	2%	(21%)	(87%)	(89%)	(76%)
	BWLPG	Not Rated	$3.69	(22%)	(15%)	(43%)	N/A	(26%)
	GSL	Not Rated	$1.53	30%	28%	(71%)	(65%)	(75%)
	Average			***(3%)***	***7%***	***(38%)***	***(33%)***	***(24%)***
Quartile 3	FRO	Market Perform	$4.79	2%	(21%)	N/A	N/A	(43%)
	GMLP	Market Perform	$20.88	(4%)	10%	4%	(2%)	55%
	SSW	Market Perform	$8.96	31%	63%	(42%)	(42%)	(33%)
	TRMD	Not Rated	$8.00	(12%)	(25%)	N/A	N/A	(42%)
	HMLP	Not Rated	$18.95	5%	9%	22%	N/A	16%
	LPG	Market Perform	$7.09	(16%)	(18%)	(50%)	N/A	(62%)
	TGP	Outperform	$17.55	(13%)	14%	(43%)	(48%)	18%
	SDLP	Not Rated	$3.72	7%	32%	(60%)	(76%)	(71%)
	NM	Not Rated	$0.78	(39%)	(45%)	(77%)	(83%)	(91%)
	NAP	Not Rated	$3.96	(55%)	(58%)	(62%)	N/A	(54%)
	SHIP	Not Rated	$0.94	(10%)	34%	(73%)	(90%)	(100%)
	NMM	Market Perform	$1.83	(22%)	3%	(81%)	(83%)	(69%)
	NAO	Not Rated	$1.26	7%	20%	(83%)	N/A	(90%)
	GNRT	Not Rated	$6.11	(7%)	18%	N/A	N/A	(55%)
	Average			***(9%)***	***3%***	***(50%)***	***(61%)***	***(44%)***
Quartile 4	NNA	Not Rated	$0.74	(33%)	(47%)	(72%)	(69%)	(85%)
	SALT	Not Rated	$7.70	2%	22%	(74%)	N/A	(93%)
	KNOP	Market Perform	$20.30	(0%)	(1%)	10%	31%	48%
	STNG	Not Rated	$2.86	(9%)	(30%)	(65%)	(62%)	(72%)
	CMRE	Outperform	$7.55	29%	3%	(52%)	(37%)	9%
	CPLP	Outperform	$3.10	(5%)	1%	(52%)	(43%)	(48%)
	ANW	Not Rated	$2.85	(36%)	(72%)	(79%)	(63%)	(92%)
	DLNG	Underperform	$8.11	(26%)	(39%)	(39%)	N/A	(25%)
	DSX	Market Perform	$4.27	2%	14%	(38%)	(60%)	(86%)
	SB	Not Rated	$3.12	(5%)	46%	(13%)	(40%)	(73%)
	TNP	Market Perform	$3.39	(16%)	(22%)	(61%)	(2%)	(85%)
	DAC	Not Rated	$1.25	(14%)	(4%)	(80%)	(71%)	(95%)
	GASS	Not Rated	$4.10	(6%)	30%	(38%)	(60%)	(73%)
	DRYS	Not Rated	$3.89	6%	(97%)	(100%)	(100%)	(100%)
	Average			***(8%)***	***(14%)***	***(54%)***	***(48%)***	***(62%)***
	S&P 500		**$2,733.01**	**1%**	**15%**	**28%**	**64%**	**99%**

[1] 10-year performance used in lieu of since-inception data when applicable

Source: Capital IQ, Wells Fargo Securities, LLC

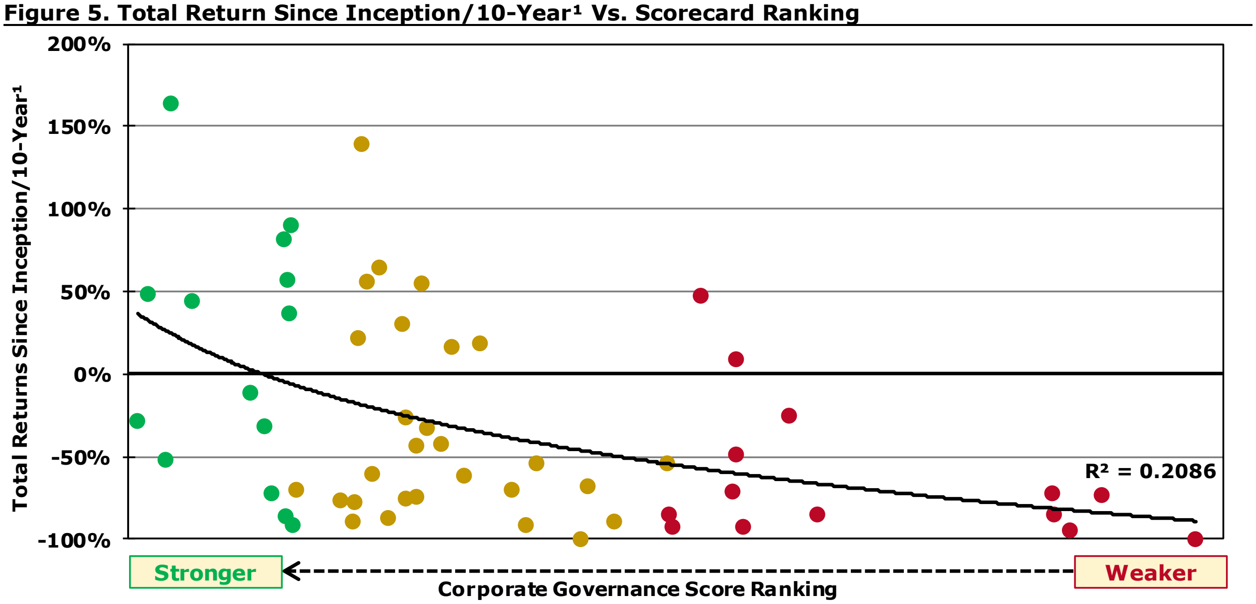
- **Stronger Corporate Governance Has Generally Been Associated With Stronger Returns.** As noted in Figure 4, our **Quartile 1 grouping** (**EGLE**, **INSW**, **OSG**, **TRTN**, **MATX**, **NVGS**, **ASC**, **EURN**, **GLOG**, **DHT**, **KEX**, **TGH**, **INT**, and **GNK**), **generally outperforming our other quartile groupings** (down 37% over the past three years), while our **Quartile 4 grouping** (**DRYS**, **GASS**, **DAC**, **TNP**, **SB**, **DSX**, **DLNG**, **ANW**, **CPLP**, **CMRE**, **STNG**, **KNOP**, **SALT**, and **NNA**) which represents companies with the lowest degree of corporate governance amid our universe, **generally underperforming the other groups** (down 61% over the past three years).

Figure 4. Average Equity Performance By Corporate Governance Quartile Ranking



Source: Capital IQ, Wells Fargo Securities, LLC

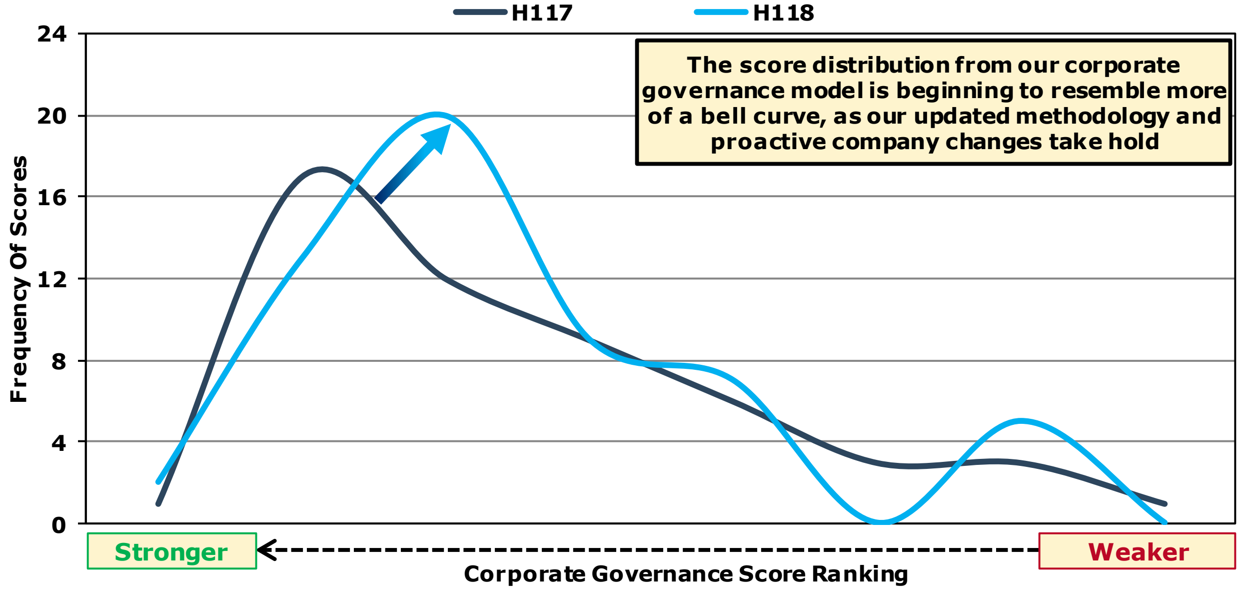
Figure 5. Total Return Since Inception/10-Year[1] Vs. Scorecard Ranking



[1] 10-year performance used in lieu of since-inception data when applicable

Source: Bloomberg, Company filings, Wells Fargo Securities, LLC estimates

Figure 6. Corporate Governance Score Distribution Trending Y/Y



Source: Bloomberg, Company filings, Wells Fargo Securities, 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, and (7) board policies. We also add a subjective factor (8) 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 corporate governance 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. Several of the additions to our methodology have been developed using data from **Penmon (*www.penmon.com*)**, an independent firm specializing in Corporate Governance analytics. Penmon's analytics have been incredibly helpful in evaluating best practices, digging deeper into board composition, and developing a better perspective on the broader subject.

Figure 7. Our Current Corporate Governance Scorecard Factors

	Previous **Corporate Governance Factor**	**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%

	Current Corporate Governance Factor	**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%

Source: Wells Fargo Securities, LLC

Under the revised methodology, we continue to scrutinize related party relationships, while expanding our Board Independence measures to analyze Executive Chairman roles, Board Tenure and Executive Sessions in addition to the level of Independent Board Membership. For board composition we analyze the diversity of perspectives across gender and age, while also taking into account if directors hold multiple board seats at other companies and the board committee structure. Finally for corporate governance functions and policies we take into consideration if Board terms are staggered, if shareholders have limited voting rights and if there are any poison pills or blank check preferred stock in place. We have included our in-depth thoughts on each factor below:

Consistent Criteria

- **Factor #1: Related Party Commercial Managers (12.5%).** 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 common place 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 (12.5%).** 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 (12.5%).** 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 (12.5%).** 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 (15.0%).** 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.

  - **Variables:**

    (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 factors weighting relative to some others.

  - **Variables:**

(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 multiple seats can impact the quality of corporate governance should it lead to insufficient time to fulfill their Board duties. To quantify this factor we have measured the average number of Board seats held by each company's Director, compiled the data into Quartiles 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 (12.5%).** 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.

  - **Variables:**

(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 reelection 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: Subjective (12.5%).** For our final factor, we assess dynamics that may be difficult to quantify amid our primary inputs, including history, context, and scale, as we believe the binary nature of some of the data does not fully capture every dynamic.

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.

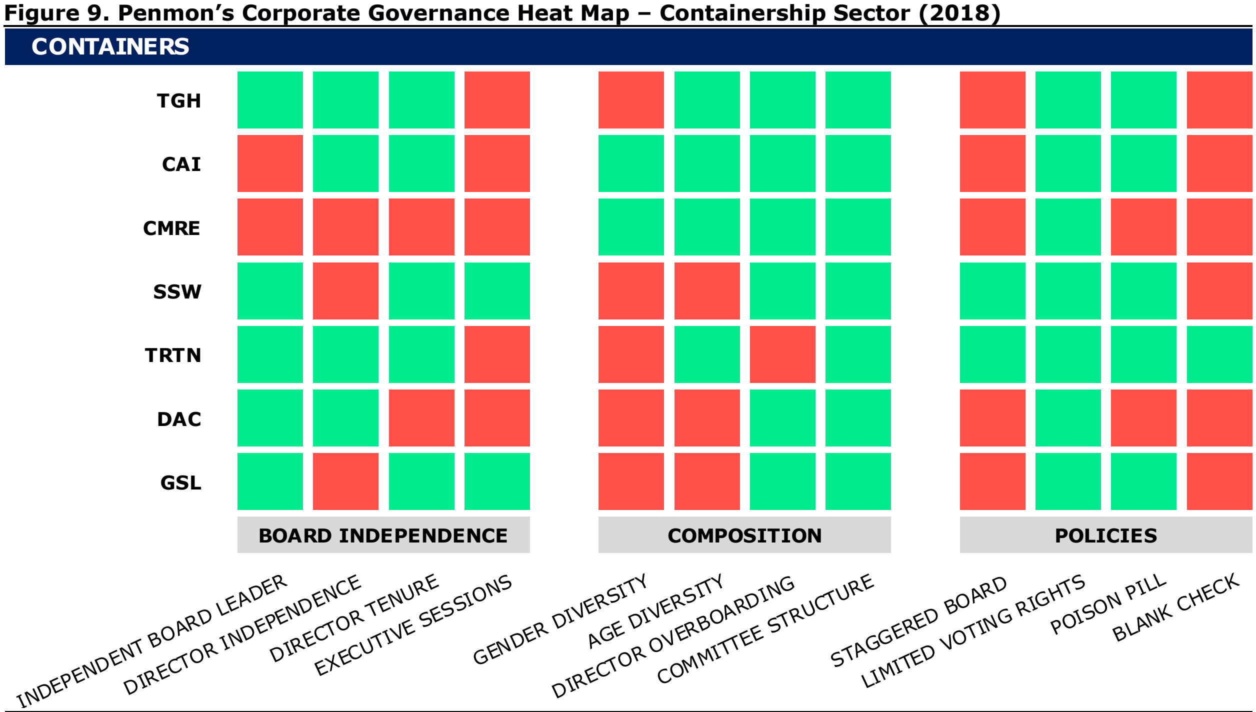
Figure 8. Company Specific Corporate Governance Overview

		Quartile		Commercial Fees		Technical Fees		S&P Fees / Commissions		Related Party Transactions[1]		% Independent Board	
Ticker	Sector	H118	*H217*	H118	*H217*	H118	*H217*	H118	*H217*	H118	*H217*	H118	*H217*
TGH	Container	1	*1*	No	*No*	No	*No*	No	*No*	No	*No*	67%	*33%*
CAI	Container	2	*2*	No	*No*	No	*No*	No	*No*	Yes	*Yes*	63%	*33%*
CMRE	Container	4	*4*	Yes	*Yes*	Yes	*Yes*	**No**	***Yes***	No	*No*	40%	*40%*
SSW	Container	3	*2*	No	*No*	No	*No*	No	*No*	**Yes**	***No***	57%	*67%*
TRTN	Container	1	*1*	No	*No*	No	*No*	No	*No*	No	*No*	78%	*78%*
DAC	Container	4	*4*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	67%	*67%*
GSL	Container	2	*N/A*	Yes	*N/A*	Yes	*N/A*	No	*N/A*	Yes	*N/A*	57%	*N/A*
SBLK	Dry Bulk	2	*1*	No	*No*	No	*No*	No	*No*	**Yes**	***No***	75%	*63%*
DSX	Dry Bulk	4	*4*	No	*No*	No	*No*	Yes	*Yes*	Yes	*Yes*	56%	*67%*
SB	Dry Bulk	4	*4*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	43%	*43%*
SALT	Dry Bulk	4	*4*	Yes	*Yes*	Yes	*Yes*	No	*No*	**No**	***Yes***	71%	*71%*
DRYS	Dry Bulk	4	*4*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	17%	*20%*
EGLE	Dry Bulk	1	*1*	No	*No*	No	*No*	No	*No*	No	*No*	83%	*86%*
GOGL	Dry Bulk	2	*3*	No	*No*	Yes	*Yes*	No	*No*	Yes	*Yes*	25%	*50%*
GNK	Dry Bulk	1	*2*	No	*No*	No	*No*	No	*No*	**No**	***Yes***	89%	*78%*
SHIP	Dry Bulk	3	*N/A*	No	*N/A*	No	*N/A*	No	*N/A*	Yes	*N/A*	60%	*N/A*
GLNG	GP	2	*2*	No	*No*	No	*No*	No	*No*	Yes	*Yes*	57%	*86%*
GLOG	GP	1	*1*	No	*No*	No	*No*	No	*No*	Yes	*Yes*	50%	*50%*
TK	GP	2	*2*	No	*No*	No	*No*	No	*No*	**Yes**	***No***	89%	*90%*
NM	GP	3	*3*	No	*No*	No	*No*	No	*No*	Yes	*Yes*	57%	*57%*
GLOP	MLP	2	*2*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	57%	*57%*
GMLP	MLP	3	*3*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	71%	*86%*
TGP	MLP	3	*3*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	80%	*80%*
TOO	MLP	2	*2*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	44%	*44%*
NAP	MLP	3	*3*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	57%	*57%*
NMM	MLP	3	*3*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	57%	*57%*
SDLP	MLP	3	*3*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	67%	*83%*
KNOP	MLP	4	*3*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	57%	*86%*
CPLP	MLP	4	*3*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	71%	*57%*
HMLP	MLP	3	*3*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	57%	*71%*
DLNG	MLP	4	*4*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	40%	*40%*
AVANCE	LPG	2	*1*	No	*No*	No	*No*	No	*No*	**Yes**	***No***	71%	*71%*
NVGS	LPG	1	*1*	No	*No*	No	*No*	No	*No*	No	*No*	71%	*86%*
LPG	LPG	3	*3*	No	*No*	No	*No*	No	*No*	Yes	*Yes*	71%	*71%*
BWLPG	LPG	2	*2*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	71%	*71%*
GASS	LPG	4	*4*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	60%	*60%*
INSW	Tankers	1	*1*	No	*No*	No	*No*	No	*No*	No	*No*	78%	*88%*
EURN	Tankers	1	*1*	No	*No*	No	*No*	No	*No*	**No**	***Yes***	71%	*71%*
ASC	Tankers	1	*1*	No	*No*	No	*No*	No	*No*	No	*No*	71%	*63%*
DHT	Tankers	1	*2*	No	*No*	No	*No*	No	*No*	No	*No*	67%	*100%*
OSG	Tankers	1	*1*	No	*No*	No	*No*	No	*No*	No	*No*	88%	*88%*
NAT	Tankers	2	*2*	No	*No*	No	*No*	No	*No*	No	*No*	60%	*80%*
TNK	Tankers	2	*2*	No	*No*	No	*No*	No	*No*	Yes	*Yes*	57%	*57%*
FRO	Tankers	3	*3*	No	*No*	No	*No*	No	*No*	Yes	*Yes*	0%	*33%*
GNRT	Tankers	3	*3*	Yes	*Yes*	No	*No*	No	*No*	Yes	*Yes*	67%	*57%*
NNA	Tankers	4	*4*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	57%	*43%*
TNP	Tankers	4	*4*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	Yes	*Yes*	63%	*67%*
STNG	Tankers	4	*4*	Yes	*Yes*	Yes	*Yes*	No	*No*	**No**	***Yes***	67%	*67%*
SFL	Tankers	2	*2*	Yes	*Yes*	Yes	*Yes*	No	*No*	Yes	*Yes*	80%	*80%*
TRMD	Tankers	3	*N/A*	No	*N/A*	No	*N/A*	No	*N/A*	Yes	*N/A*	60%	*N/A*
NAO	Tankers	3	*N/A*	No	*N/A*	No	*N/A*	No	*N/A*	Yes	*N/A*	20%	*N/A*
INT	Bunker	1	*N/A*	No	*N/A*	No	*N/A*	No	*N/A*	No	*N/A*	67%	*N/A*
ANW	Bunker	4	*N/A*	Yes	*N/A*	No	*N/A*	No	*N/A*	Yes	*N/A*	86%	*N/A*
CKH	US Marine	2	*2*	No	*No*	No	*No*	No	*No*	Yes	*Yes*	67%	*60%*
KEX	US Marine	1	*1*	No	*No*	No	*No*	No	*No*	**No**	***Yes***	78%	*78%*
MATX	US Marine	1	*1*	No	*No*	No	*No*	No	*No*	No	*No*	86%	*86%*

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

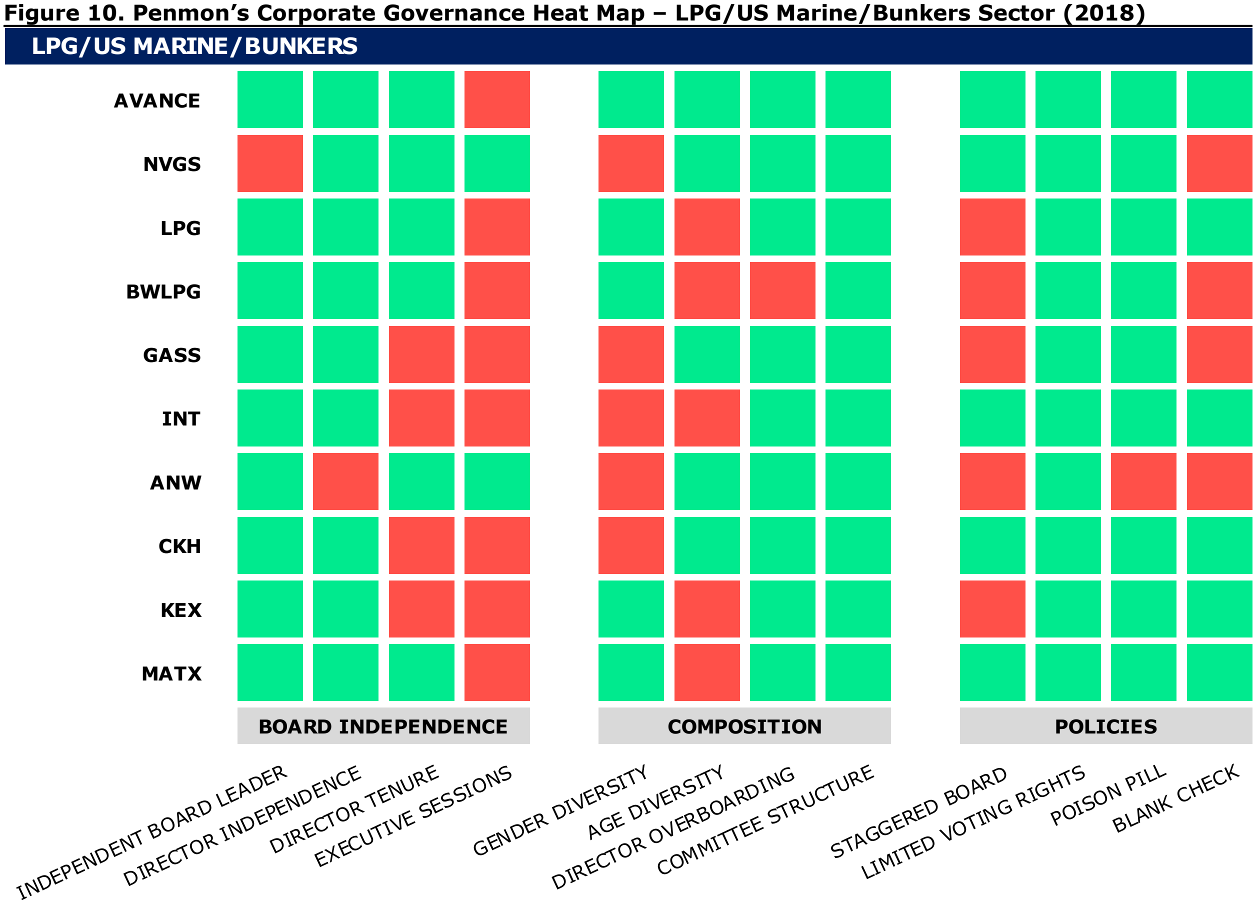
Source: Company filings, Wells Fargo Securities, LLC estimates

Figure 9. Penmon's Corporate Governance Heat Map – Containership Sector (2018)



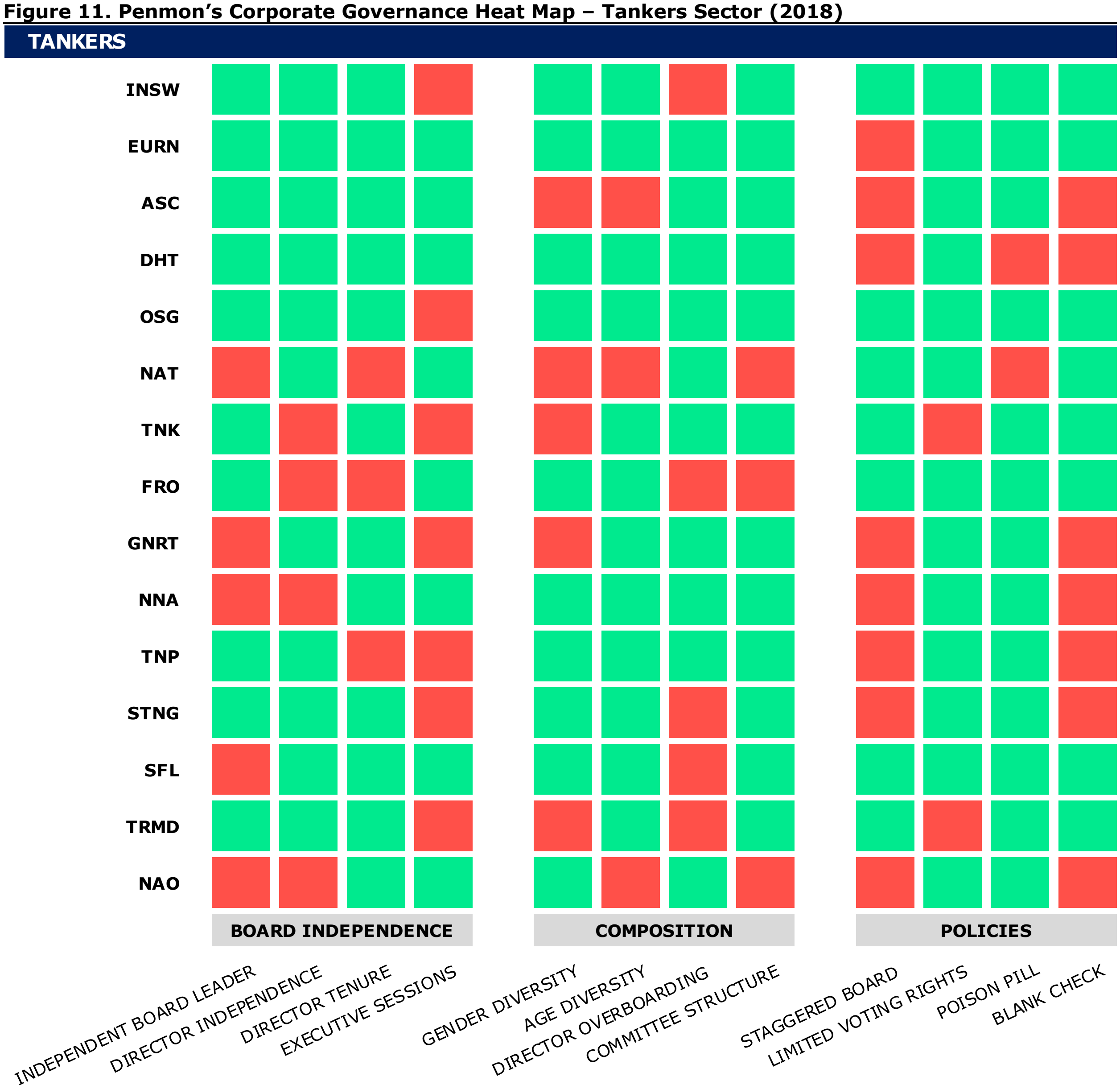
Source: Penmon

Figure 10. Penmon's Corporate Governance Heat Map – LPG/US Marine/Bunkers Sector (2018)



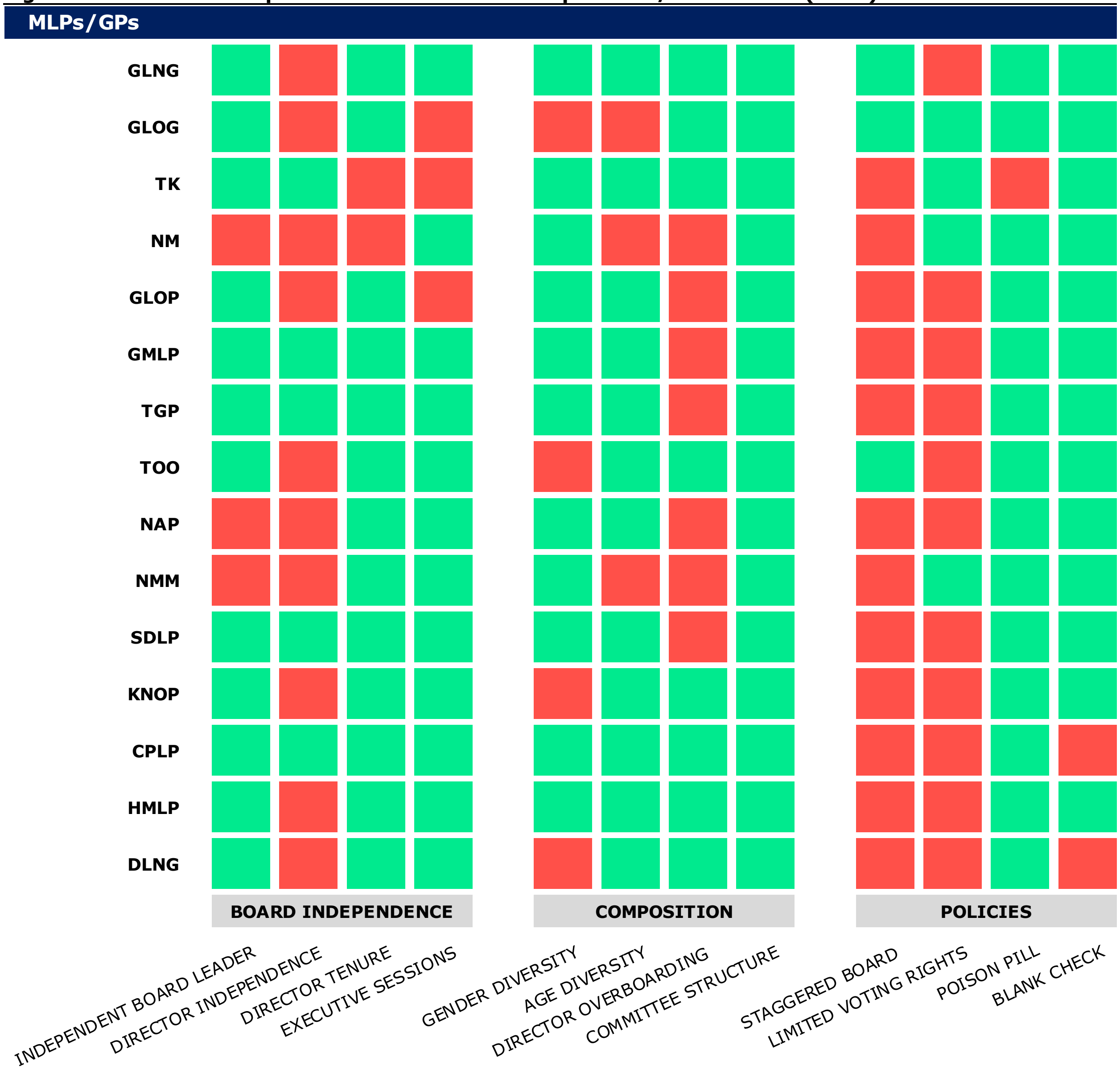
Source: Penmon

Figure 11. Penmon's Corporate Governance Heat Map – Tankers Sector (2018)



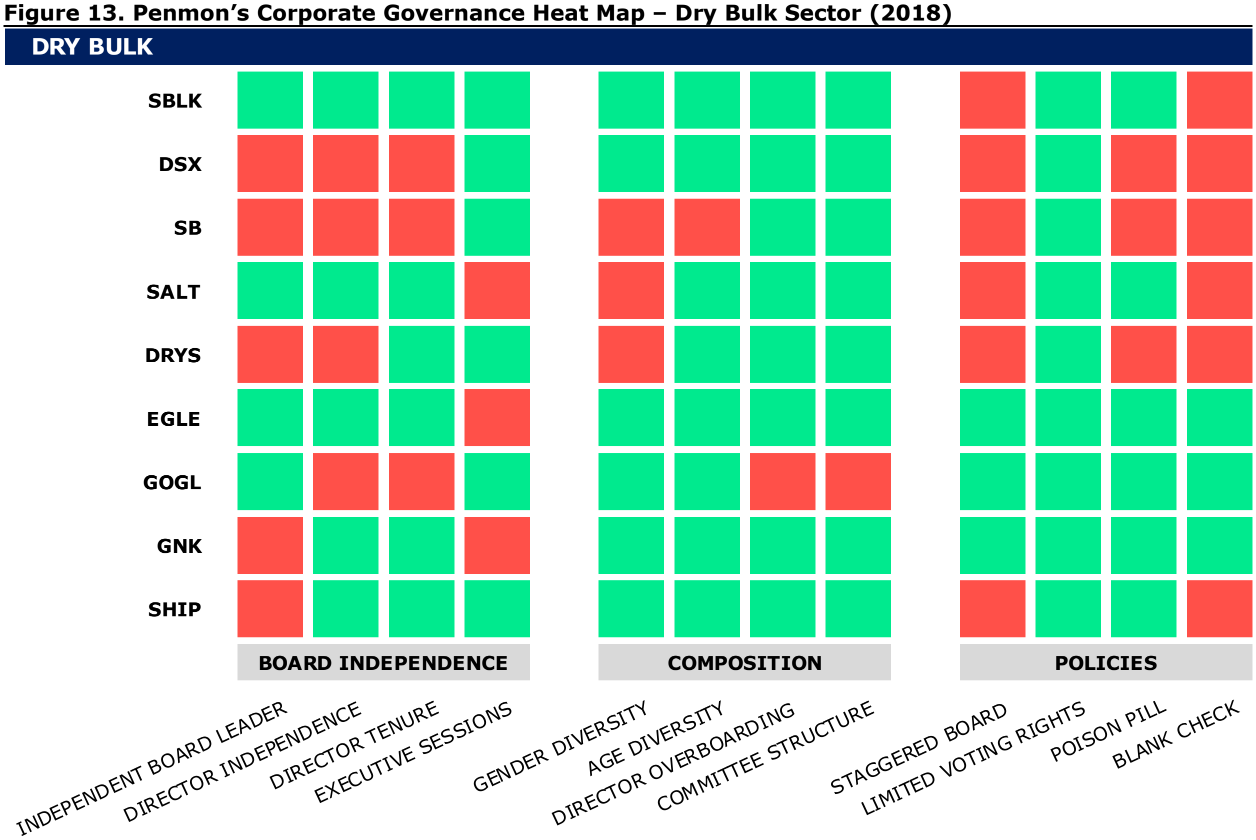
Source: Penmon

Figure 12. Penmon's Corporate Governance Heat Map – MLPs/GPs Sectors (2018)



Source: Penmon

Figure 13. Penmon's Corporate Governance Heat Map – Dry Bulk Sector (2018)



Source: Penmon

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