

Corporate Governance Scorecard 2019

Volume VI

Shipping

- 2019 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.
- Updated Universe, Same Model.** We've added **NFE, DSSI, GRIN, FLEX,** and **OB:HUNT** to our scorecard while removing ANW (filed Chapter 11), NAP (merged with **NNA**), GNRT (merged with **EURN**), and NAO & SHIP (market cap hurdle). We've kept the framework for our 2019 model intact y/y, including the broader analysis of Board Composition, Policy, and Independence, in continued collaboration with corporate governance consulting firm Penmon. We're also reaffirming our move 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, ASC, MATX, EURN, KEX, GNK, NVGS, INT, GLOG, DHT,** and **CAI**) **outperformed** the group by **16%** on a 1-year basis and **53%** on a 5-year basis.
- Companies with the **weakest corporate governance** scores (**NMM, NNA, SALT, GSL, KNOP, CPLP, STNG, DLNG, DSX, TNP, GASS, SB, DAC,** and **DRYS**) **underperformed** the group by **(19%)** on a 1-year basis and **(31%)** on a 5-year basis.

Please see page 16 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 05/06/19 unless otherwise stated. 05/05/19 21:53:25 ET

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The 2019 Scorecard Summary

Figure 1. Shipping Corporate Governance Scorecard Rankings – 2019

2019 Shipping Corporate Governance Rankings									
	Company	2019	2018	Δ Up/ (Down)		Company	2019	2018	Δ Up/ (Down)
Quartile 1	EGLE	1	1	-	Quartile 3	TOO	29	26	(3)
	INSW	2	2	-		HMLP	30	33	3
	OSG	3	3	-		TRMD	31	32	1
	TRTN	4	4	-		AVANCE	32	15	(17)
	ASC	5	7	2		SSW	33	31	(2)
	MATX	6	5	(1)		BWLPG	34	27	(7)
	EURN	7	8	1		NAT	35	24	(11)
	KEX	8	11	3		GMLP	36	30	(6)
	GNK	9	14	5		TGP	37	35	(2)
	NVGS	10	6	(4)		DSSI	38	New	
	INT	11	13	2		NM	39	37	(2)
	GLOG	12	9	(3)		SDLP	40	36	(4)
	DHT	13	10	(3)		SBLK	41	16	(25)
	CAI	14	23	9		CMRE	42	47	5
Quartile 2	TGH	15	12	(3)	Quartile 4	NMM	43	40	(3)
	CKH	16	21	5		NNA	44	43	(1)
	TNK	17	17	-		SALT	45	44	(1)
	GRIN	18	New			GSL	46	28	(18)
	GLNG	19	20	1		KNOP	47	45	(2)
	GOGL	20	22	2		CPLP	48	48	-
	TK	21	18	(3)		STNG	49	46	(3)
	FLEX	22	New			DLNG	50	50	-
	FRO	23	29	6		DSX	51	51	-
	NFE	24	New			TNP	52	53	1
	SFL	25	19	(6)		GASS	53	55	2
	GLOP	26	25	(1)		SB	54	52	(2)
	OB:HUNT	27	New			DAC	55	54	(1)
	LPG	28	34	6		DRYS	56	56	-

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, ASC, MATX, EURN, KEX, GNK, NVGS, INT, GLOG, DHT**, and **CAI** as noted in Figure 1.
- The companies that had the **weakest** corporate governance scores within our model were **NMM, NNA, SALT, GSL, KNOP, CPLP, STNG, DLNG, DSX, TNP, GASS, SB, DAC**, and **DRYS** 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**, 12 out of the 14 top quartile (best ranked) names would have been the same.
 - *Excluding* our **subjective factor**, 12 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 and well-defined**, to focus on an idea/risk that can be easily obfuscated or overrun by other dynamics like valuation and cyclicity. 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 top third, a large middle section, and a small group at the bottom (**Page 7**).
 - We've added **NFE, DSSI, GRIN, FLEX**, and **HUNT** while removing **ANW** (filed Chapter 11), **NAP** (merged with **NNA**), **GNRT** (merged with **EURN**), and **NAO & SHIP** (market cap hurdle). As we would expect, the inclusion of 5 new names drove a significant degree of the movement within the rankings.
 - **Quartile 1:** The composition of Quartile 1 remained relatively consistent y/y, with **13/14** names remaining the same. The top 4 companies (**EGLE, INSW, OSG**, and **TRTN**) remained *exactly* the same. **CAI** moved up to Quartile 1 as Board changes from early-2018 are now fully reflected in its rolling average score. We note Quartile 1 scores are tightly clustered, with small changes driving most of the movement referenced above.
 - **Quartile 2:** **FRO** and **LPG** moved up to Quartile 2 (from Quartile 3) with **FRO's** score modestly benefitting from recent Board turnover and **LPG's** position improved due to the full impact of its poison pill removal (2018) on its rolling average score. We note the majority of the newly included companies (4 out of 5) ranked in Quartile 2, including **NFE, FLEX, OB:HUNT**, and **GRIN**.
 - **Quartile 3:** **TOO, AVANCE, BWLPG, NAT**, and **SBLK** slid from Quartile 2 to Quartile 3 with bigger moves coming from **AVANCE** (commercial shift toward Hemen Holdings as well as prior changes impacting its moving average – including its CEO drawing compensation from a sponsoring company), **NAT** (recognition of related party transactions – see Figure 2), and **SBLK** (related party management structures following recent M&A – see Figure 2).
 - **Quartile 4:** **GSL** fell from Quartile 2 into Quartile 4 (due to new conflicts within its structure following its Poseidon merger), while the rest of Quartile 4 stayed largely the same. There remains a significant gap between **TNP, GASS, SB, DAC, DRYS** and the rest of our rankings.

Recent Developments & Data Updates

Figure 2. Recent (Select) Company Specific Changes

Ticker	Commentary
AVANCE	During 2018 Hemen Holding Limited (John Fredriksen) became the largest shareholder in AVANCE, which is actively integrating closer to the Seatankers (Fredriksen) group of companies, leveraging Hemen's commercial management and technical expertise. The degree of integration remains unclear (we assume at least related party commercial management within our model).
DSX	1/31/19 DSX issued 10,675 Series C Preferred Stock to an affiliate of its Executive Chairman, Simeon Palios. Each Series C share carries voting rights equal to 1,000 common shares. We note that DSX spinout Diana Containerships (DCIX) - now renamed Performance Shipping, Inc - spent the majority of the past 12 months as defendants in an investor class action suit pertaining to their dealings with Kalani Investments.
EURN	Appeared in Bloomberg Gender Equality Index (GEI) for the second year in a row. The GEI consists of 230 companies with work environments supporting gender equality. We note EURN will hold its Annual Meeting on 5/9 where Paddy Rogers and Dan Bradshaw will step down, and will likely be replaced by independent directors (new CEO Hugo De Stoop will not join the Board).
GLNG	In 9/2018, Thorleif Egeli (independent) was appointed to the board - replacing Fredrik Halvorsen (also independent). The total number of board members remains unchanged at 7.
GLOP	On 2/1/19, Michael Gialouris (independent) was appointed to the Board - replacing Anthony S. Papadimitriou (also independent).
GSL	11/15/18 completed combination with Poseidon Containers along with an expansion to its Board of Directors to 8 (from 7). We are also recognizing sale & purchase fees with Conchart, a related party with GSL's Executive Chairman, George Giouroukos.
NAT	We've adjusted NAT's score to reflect various related party transactions, including disclosure around prepaying its Chairman, Herbjorn Hansson for use of an asset for corporate and marketing activities.
NMM	7/2018, Kunihide Akizawa (independent) was appointed to the Board, replacing Robert Pierto (also independent). In 2/2019, Alexander Kalafatides (independent) was appointed to the board, replacing Lampros Theodorou (independent). The Board composition remains unchanged with 4 independent directors. The total number of board members remains unchanged at 7.
NNA	Announced 10/8/18 and completed 12/14/18 - NNA acquired all public units of NAP, issuing ~3.7MM new NNA shares at an exchange ratio of 0.42.
SALT	We've adjusted SALT's score to reflect related party transactions - On 10/9/18 SALT announced \$100MM (~11%) investment in sister company, STNG.
STNG	We are adjusting STNG's score to reflect the SALT transaction (above) as well as related party transactions with Scorpio Services Holdings (SSH), a private related party.
SBLK	We are adjusting SBLK's score to reflect new related party structures resulting from its recent M&A, including related party technical management with Songa Ship Management following SBLK's acquisition of Songa's fleet and appointment of Arne Blystad to its Board (affiliated with Songa Ship Management), as well as Augustea Technoservices (related party).
SDLP	In 12/2018, directors Graham Robjohns (former SDLP CEO, non-independent) and Kate Blankenship (independent director) stepped down from the Board. John Darlington was appointed to the Board as an independent director, leaving the number of independent directors unchanged at 4. The total number of board members is at 5 (down from 6).
TGH	We are adjusting TGH's score to reflect related party transactions with Maccarone Container Fund (related to current Director, John Maccarone and his family).
TGP	In 9/2018, Kenneth Hvid (President/CEO of TK, non-independent director) was reappointed to the Board, replacing Vince Lok (TK's EVP/CFO) who was also a non-independent director. Bill Utt (independent) was also appointed to the BOD, bringing the total number of Directors to 6 (from 5).
TK	Effective 6/2019, Chairman Emeritus C. Sean Day Chairman Emeritus will retire from the Board. Kenneth Hvid (TK's President & CEO) has been appointed to serve as a Director following Mr. Day's retirement.
TK	Independent directors Peter S. Janson and Tore I. Sandvold will retire from the Board effective 6/2019. The Board has nominated Peter Antturi to stand for election as a director at the 6/2019 shareholders meeting. Mr Antturi is former President of Teekay's Shuttle Tankers Division and former SVP/CFO at TK and would be considered non-independent director.
TK	Chairman Bill Utt will resign from his role as Chairman/independent director effective 6/2019. David Schellenberg (independent director) will replace Mr. Utt as Chair.
TK	TK's director Heidi Locke is engaged as a consultant to Kattogat Limited, the parent company of Resolute (TK's largest shareholder), to oversee its investments, including those in the TK Group of companies (we think this is conflict of interest).
TOO	Until 12/31/17, TK provided various services to TOO including commercial and technical services. In 1/2018, TOO acquired a 100% ownership interest (for \$1.4MM cash consideration) in seven of TK's subsidiaries that provided ship management, commercial, technical, strategic, business development and administrative services exclusively to TOO.
TOO	In 9/2018, Craig Laurie and Denis Turcotte (Brookfield execs, non-independent) were appointed to the BOD, replacing David Levenson and Bradley Weismiller (non-independent, also appointed by Brookfield in 9/2017). In 3/2019, Bill Transier (independent) was appointed to the Board, replacing John J. Peacock (independent). The Board composition remains unchanged with 4 independent and 5 non-independent directors.

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 on a 1, 3, 5, and 10-year basis by an average of **~41%**. 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.

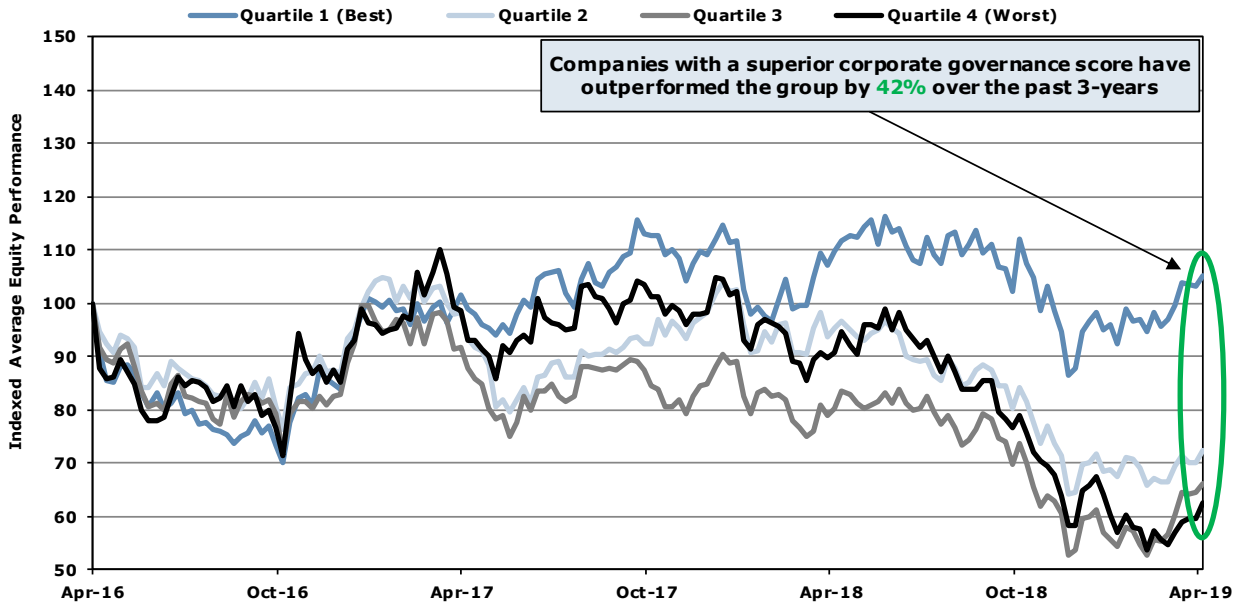
Figure 3. Price, Performance, And Rating By Quartile Rank

2019 Shipping Corporate Governance Rankings									
		Price		% Total Return					
	Ticker	Rating	5/3/19	YTD	1 Year	3 Year	5 Year	Since Inception/10-Year ¹	
Marine names with top-tier governance have Outperformed on a YTD, 1, 3, 5, & 10-year basis	Quartile 1	EGLE	Not Rated	\$5.70	21%	8%	(58%)	N/A	(28%)
		INSW	Not Rated	\$18.39	4%	(9%)	N/A	N/A	42%
		OSG	Not Rated	\$1.87	11%	(48%)	N/A	N/A	(36%)
		TRTN	Market Perform	\$32.32	2%	4%	N/A	N/A	146%
		ASC	Outperform	\$7.66	65%	(5%)	(12%)	(34%)	(35%)
		MATX	Market Perform	\$40.16	25%	34%	15%	85%	68%
		EURN	Outperform	\$9.75	36%	29%	8%	19%	3%
		KEX	Market Perform	\$84.90	25%	(4%)	31%	(21%)	156%
		GNK	Not Rated	\$10.14	22%	(39%)	30%	N/A	(95%)
		NVGS	Market Perform	\$11.26	15%	2%	(25%)	(58%)	(44%)
		INT	Not Rated	\$30.62	44%	39%	(33%)	(30%)	67%
		GLOG	Outperform	\$15.70	(7%)	(0%)	46%	(30%)	60%
		DHT	Market Perform	\$5.70	42%	62%	20%	(0%)	(79%)
	CAI	Market Perform	\$24.19	3%	(1%)	142%	9%	520%	
Average				22%	5%	15%	(7%)	53%	
Quartile 2	TGH	Underperform	\$9.65	(9%)	(45%)	(31%)	(71%)	63%	
	CKH	Not Rated	\$45.91	21%	(17%)	36%	(6%)	78%	
	TNK	Market Perform	\$1.22	26%	7%	(63%)	(56%)	(80%)	
	GRIN	Not Rated	\$5.15	(16%)	N/A	N/A	N/A	(70%)	
	GLNG	Outperform	\$20.36	(9%)	(37%)	28%	(48%)	415%	
	GOGL	Not Rated	\$5.82	(6%)	(26%)	61%	N/A	(71%)	
	TK	Market Perform	\$4.48	32%	(47%)	(51%)	(91%)	(59%)	
	FLEX	Not Rated	\$13.90	(1%)	19%	N/A	N/A	21%	
	FRO	Market Perform	\$8.24	46%	93%	20%	N/A	(2%)	
	NFE	Not Rated	\$12.90	(1%)	N/A	N/A	N/A	(1%)	
	SFL	Not Rated	\$12.95	22%	1%	23%	26%	277%	
	GLOP	Outperform	\$20.89	9%	0%	54%	N/A	24%	
	OB:HUNT	Not Rated	\$0.42	13%	0%	(83%)	(95%)	(95%)	
LPG	Market Perform	\$8.00	37%	12%	(19%)	N/A	(57%)		
Average				12%	(3%)	(2%)	(49%)	32%	
Quartile 3	TOO	Market Perform	\$1.34	1%	(50%)	(75%)	(95%)	(81%)	
	HMLP	Not Rated	\$19.53	26%	23%	42%	N/A	29%	
	TRMD	Not Rated	\$8.34	23%	13%	(32%)	N/A	(37%)	
	AVANCE	Not Rated	\$2.69	86%	17%	(51%)	(68%)	(55%)	
	SSW	Underperform	\$10.30	30%	33%	(21%)	(30%)	195%	
	BWLPG	Not Rated	\$4.35	47%	32%	(7%)	(19%)	23%	
	NAT	Market Perform	\$2.21	7%	22%	(82%)	(61%)	(86%)	
	GMLP	Market Perform	\$12.99	20%	(28%)	8%	(28%)	6%	
	TGP	Outperform	\$14.95	29%	(12%)	26%	(56%)	59%	
	DSSI	Not Rated	\$14.21	30%	N/A	N/A	N/A	30%	
	NM	Not Rated	\$4.59	44%	(44%)	(51%)	(94%)	(85%)	
	SDLP	Not Rated	\$0.71	(58%)	(76%)	(82%)	(96%)	(94%)	
	SBLK	Not Rated	\$9.02	(5%)	(28%)	104%	N/A	(84%)	
CMRE	Market Perform	\$6.15	39%	(8%)	(19%)	(58%)	(5%)		
Average				23%	(8%)	(19%)	(61%)	(13%)	
Quartile 4	NMM	Market Perform	\$0.96	0%	(45%)	(34%)	(93%)	(81%)	
	NNA	Not Rated	\$7.39	103%	(24%)	(59%)	(77%)	(89%)	
	SALT	Not Rated	\$5.53	(3%)	(28%)	46%	(95%)	(95%)	
	GSL	Not Rated	\$5.70	3%	(46%)	(63%)	(82%)	(58%)	
	KNOP	Market Perform	\$19.55	14%	8%	41%	17%	58%	
	CPLP	Market Perform	\$11.06	30%	(1%)	43%	(56%)	(3%)	
	STNG	Not Rated	\$27.73	49%	5%	(49%)	(62%)	(72%)	
	DLNG	Underperform	\$2.33	(34%)	(67%)	(75%)	(81%)	(76%)	
	DSX	Market Perform	\$3.25	1%	(13%)	1%	(72%)	(79%)	
	TNP	Market Perform	\$3.25	17%	(6%)	(38%)	(43%)	(70%)	
	GASS	Not Rated	\$3.43	20%	(16%)	(14%)	(68%)	(33%)	
	SB	Not Rated	\$1.81	(7%)	(41%)	66%	(78%)	(47%)	
	DAC	Not Rated	\$11.06	(7%)	(34%)	(79%)	(87%)	(81%)	
DRYS	Not Rated	\$4.05	(31%)	18%	(100%)	(100%)	(100%)		
Average				11%	(21%)	(22%)	(70%)	(59%)	
S&P 500			\$2,945.64	17%	12%	43%	57%	236%	

¹ 10-year performance used in lieu of since-inception data when applicable
 Source: Capital IQ, Wells Fargo Securities, LLC

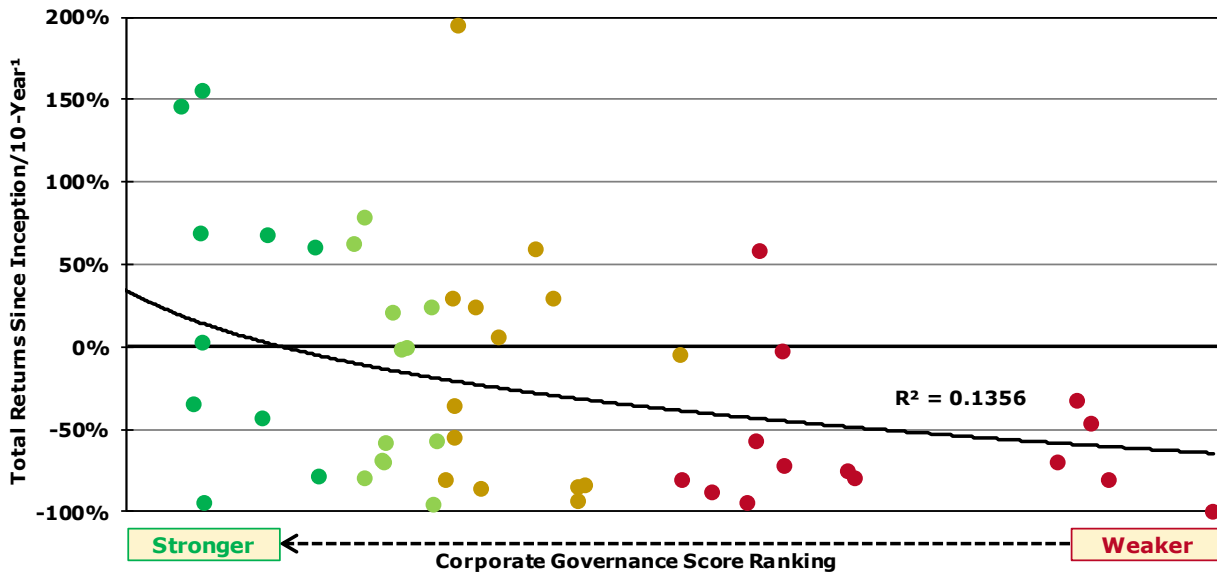
- **Stronger Corporate Governance Has Generally Been Associated With Stronger Returns.** As noted in Figure 4, stocks scoring within Quartile 1 of our scorecard generally **outperformed** the rest of the group (up **15%** over the past three years), while stocks in Quartile 4 generally **underperformed** the group (down **29%** over the past three years, S&P +43%).

Figure 4. Average Equity Performance By Corporate Governance Quartile Ranking



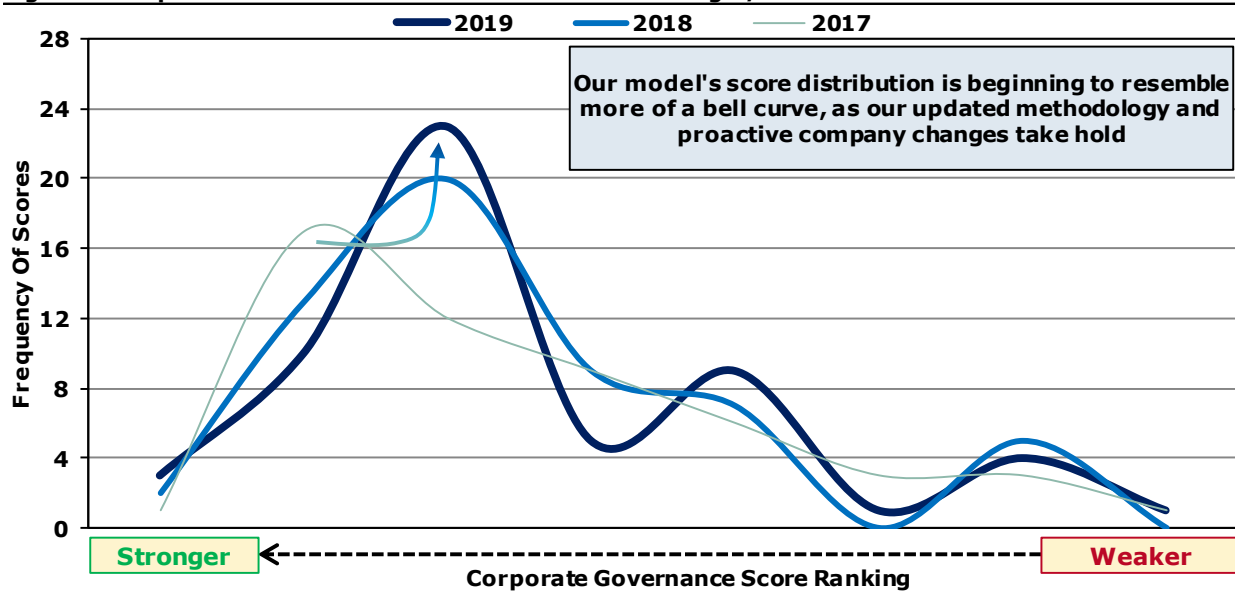
Source: Capital IQ, Wells Fargo Securities, LLC

Figure 5. Total Return Since Inception/10-Year¹ Vs. Scorecard Ranking



¹ 10-year performance used in lieu of since-inception data when applicable
 Note: CAI (+520%, Q1), GLNG (+415%, Q2), and SFL (+277%, Q2) not shown
 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 very 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

	<i>Previous Corporate Governance Factor</i>	<i>Weight</i>
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 comparing 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 entrenched 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

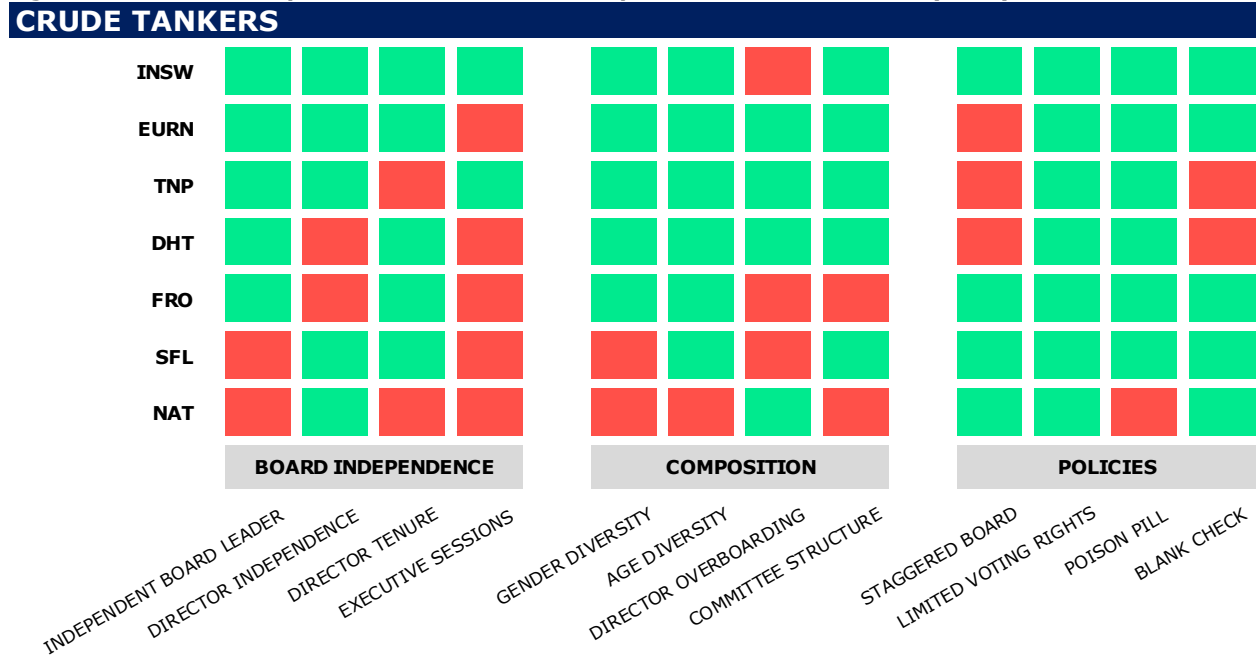
• To further supplement our Corporate Governance rankings, we have provided a detailed summary of our factor inputs (Commercial/Technical Management, S&P fees, Related Party Transactions, Independent Board Membership and our Subjective factor) to an individual company level.

Figure 8. Company Specific Corporate Governance Overview

Ticker	Sector	Quartile		Commercial Fees		Technical Fees		S&P Fees / Commissions		Related Party Transactions ¹		% Independent Board	
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
CAI	Container	1	2	No	No	No	No	No	No	Yes	Yes	57%	63%
CMRE	Container	3	4	Yes	Yes	Yes	Yes	No	No	No	No	40%	40%
DAC	Container	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	57%	67%
GSL	Container	4	2	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	63%	57%
SSW	Container	3	3	No	No	No	No	Yes	No	No	Yes	57%	57%
TGH	Container	2	1	No	No	No	No	No	No	Yes	No	13%	67%
TRTN	Container	1	1	No	No	No	No	No	No	No	No	80%	78%
MATX	Container	1	1	No	No	No	No	No	No	No	No	71%	86%
DRYS	Dry Bulk	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	17%	17%
DSX	Dry Bulk	4	4	No	No	No	No	Yes	Yes	Yes	Yes	55%	56%
EGLE	Dry Bulk	1	1	No	No	No	No	No	No	No	No	83%	83%
GNK	Dry Bulk	1	1	No	No	No	No	No	No	No	No	56%	89%
GOGL	Dry Bulk	2	2	No	No	Yes	Yes	No	No	Yes	Yes	20%	25%
GRIN	Dry Bulk	2	N/A	No	N/A	No	N/A	No	N/A	Yes	N/A	38%	N/A
SALT	Dry Bulk	4	4	Yes	Yes	Yes	Yes	No	No	Yes	No	75%	71%
SB	Dry Bulk	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	43%	43%
SBLK	Dry Bulk	3	2	Yes	No	Yes	No	No	No	Yes	Yes	60%	75%
DLNG	LNG	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	40%	40%
FLEX	LNG	2	N/A	No	N/A	No	N/A	No	N/A	Yes	N/A	50%	N/A
GLNG	LNG	2	2	No	No	No	No	No	No	Yes	Yes	57%	57%
GMLP	LNG	3	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	71%	71%
HMLP	LNG	3	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	57%
NFE	LNG	2	N/A	No	N/A	No	N/A	No	N/A	Yes	N/A	75%	N/A
TGP	LNG	3	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	50%	80%
GLOG	LNG	1	1	No	No	No	No	No	No	Yes	Yes	50%	50%
GLOP	LNG	2	2	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	57%
AVANCE	LPG	3	2	Yes	No	No	No	No	No	Yes	Yes	67%	71%
BWLPG	LPG	3	2	Yes	Yes	Yes	Yes	No	No	Yes	Yes	67%	71%
GASS	LPG	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	60%	60%
LPG	LPG	2	3	No	No	No	No	No	No	Yes	Yes	71%	71%
NVGS	LPG	1	1	No	No	No	No	No	No	No	No	71%	71%
INT	Bunker	1	1	No	No	No	No	No	No	No	No	67%	67%
CKH	US Marine	2	2	No	No	No	No	No	No	Yes	Yes	60%	67%
KEX	US Marine	1	1	No	No	No	No	No	No	No	No	78%	78%
OSG	US Marine	1	1	No	No	No	No	No	No	No	No	88%	88%
CPLP	Marine MLP/GP	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	71%	71%
KNOP	Marine MLP/GP	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	57%
NM	Marine MLP/GP	3	3	No	No	No	No	No	No	Yes	Yes	57%	57%
SDLP	Marine MLP/GP	3	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	80%	67%
TK	Marine MLP/GP	2	2	No	No	No	No	No	No	Yes	Yes	75%	89%
TOO	Marine MLP/GP	3	2	Yes	Yes	Yes	Yes	No	No	Yes	Yes	33%	44%
NMM	Marine MLP/GP	4	3	Yes	Yes	Yes	Yes	No	No	Yes	Yes	57%	57%
ASC	Tanker	1	1	No	No	No	No	No	No	No	No	83%	71%
DSSI	Tanker	3	N/A	Yes	N/A	Yes	N/A	No	N/A	No	N/A	29%	N/A
INSW	Tanker	1	1	No	No	No	No	No	No	No	No	78%	78%
TRMD	Tanker	3	3	No	No	No	No	No	No	Yes	Yes	60%	60%
STNG	Tanker	4	4	Yes	Yes	Yes	Yes	No	No	Yes	No	67%	67%
NNA	Tanker	4	4	Yes	Yes	Yes	Yes	No	No	Yes	Yes	63%	57%
TNK	Tanker	2	2	No	No	No	No	No	No	Yes	Yes	50%	57%
DHT	Tanker	1	1	No	No	No	No	No	No	No	No	50%	67%
EURN	Tanker	1	1	No	No	No	No	No	No	No	No	71%	71%
FRO	Tanker	2	3	No	No	No	No	No	No	Yes	Yes	0%	0%
OB:HUNT	Tanker	2	N/A	No	N/A	No	N/A	No	N/A	Yes	N/A	33%	N/A
NAT	Tanker	3	2	No	No	No	No	No	No	Yes	No	60%	60%
SFL	Tanker	2	2	Yes	Yes	Yes	Yes	No	No	Yes	Yes	60%	80%
TNP	Tanker	4	4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	67%	63%

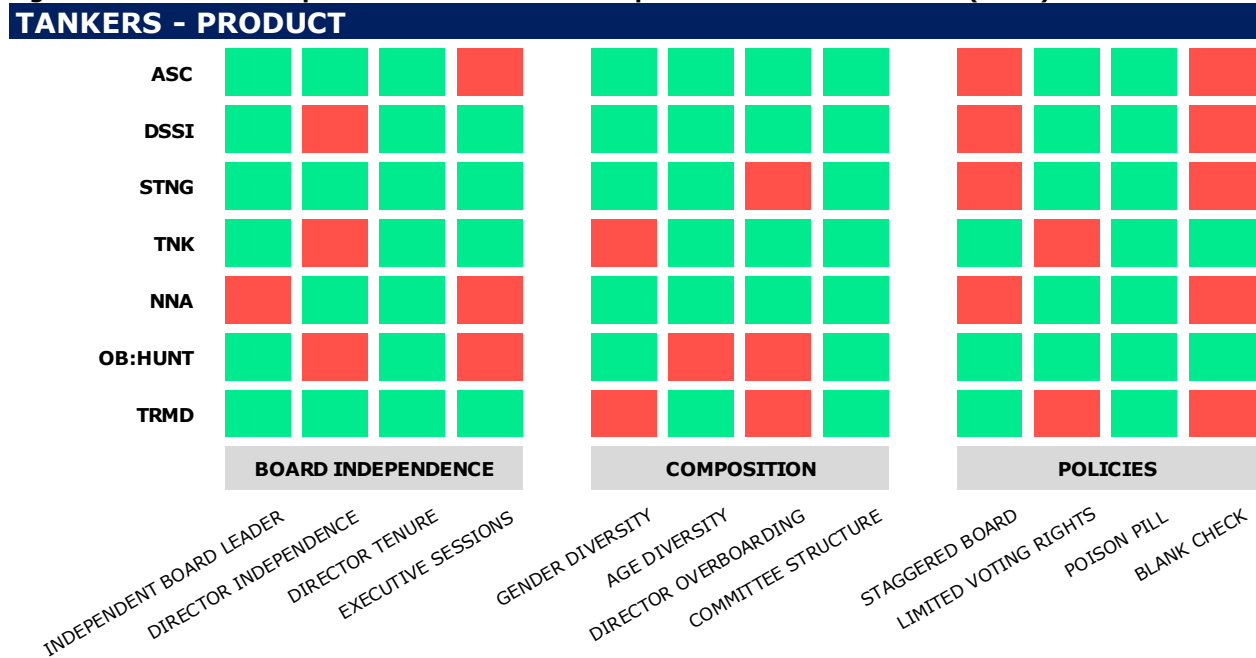
¹ We note the majority of changes within our Related Party Transactions stem from the treatment of administrative and office leases
 Source: Company filings, Wells Fargo Securities, LLC estimates

Figure 9. Penmon’s Corporate Governance Heat Map – Crude Tankers Sector (2019)



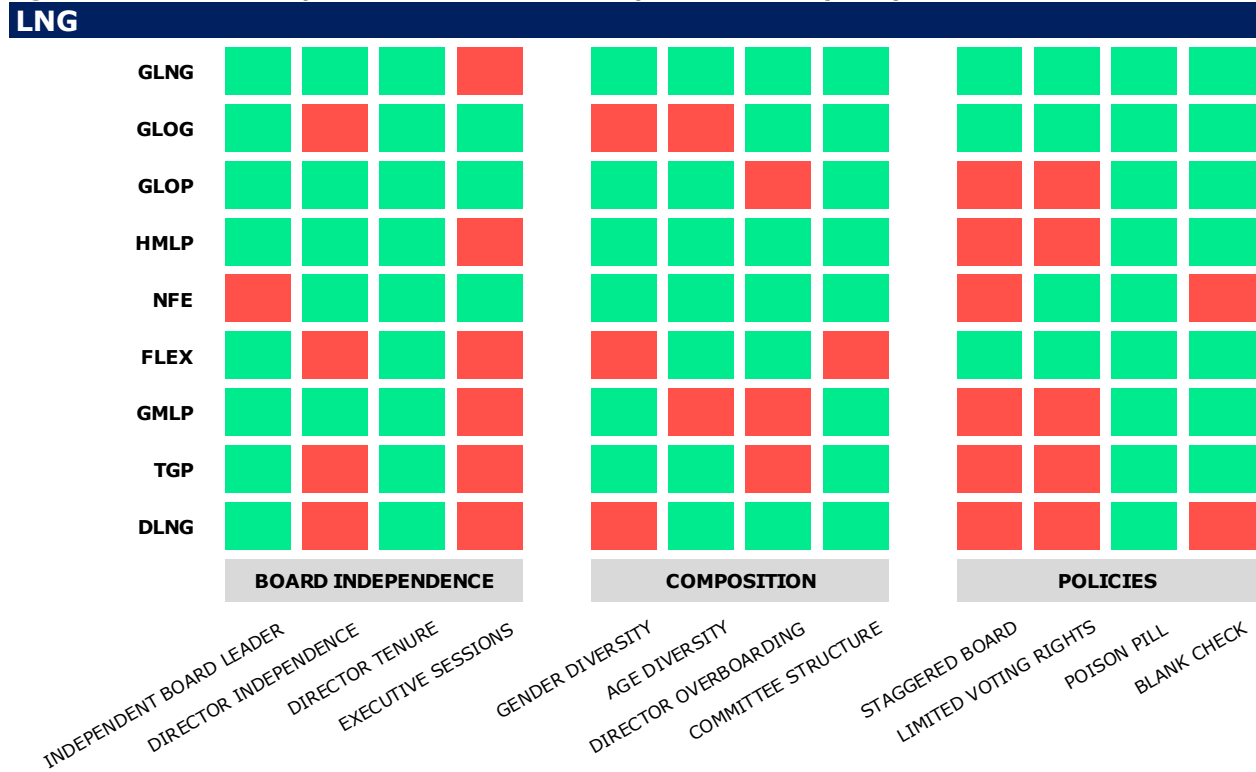
Source: Penmon

Figure 10. Penmon’s Corporate Governance Heat Map – Product Tankers Sector (2019)



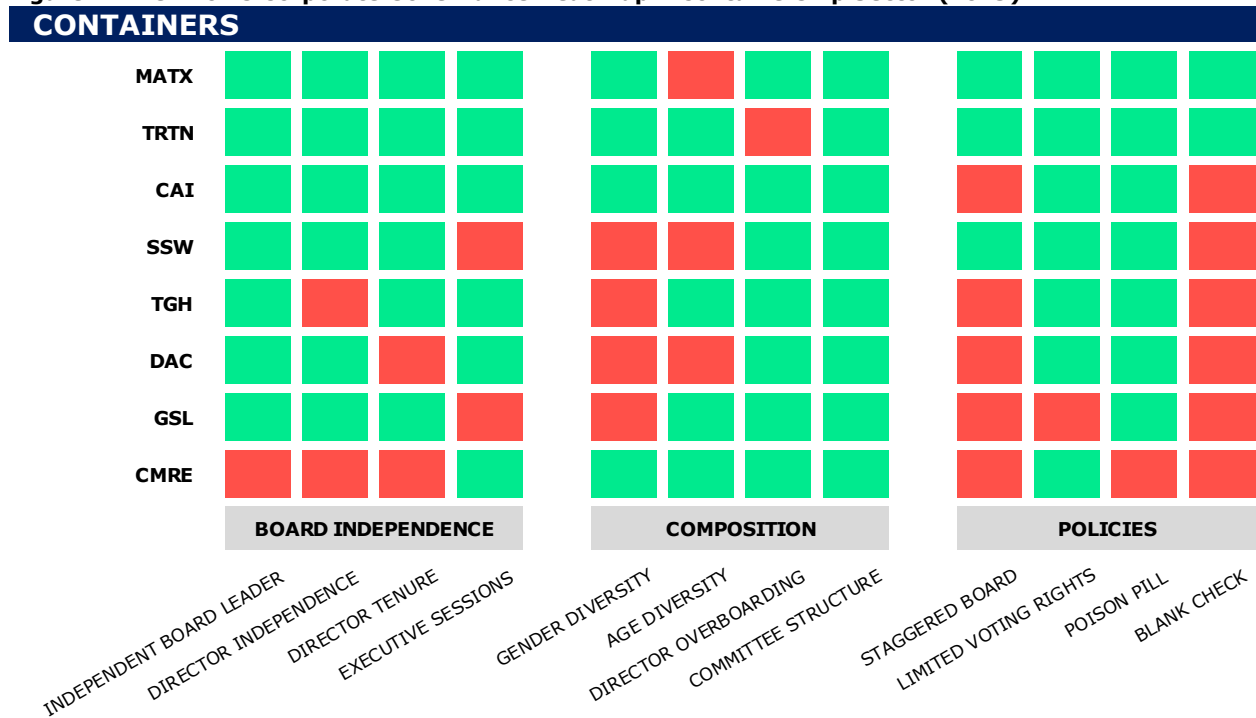
Source: Penmon

Figure 11. Penmon’s Corporate Governance Heat Map – LNG Sector (2019)



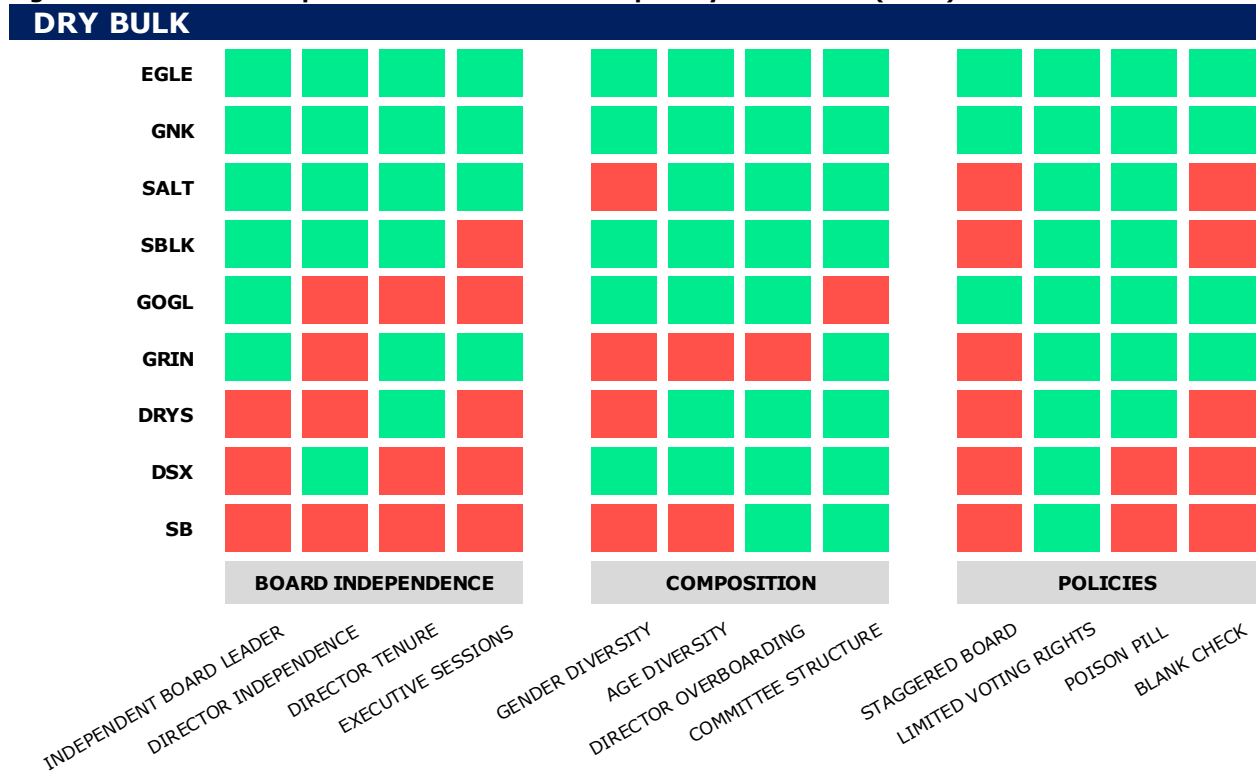
Source: Penmon

Figure 12. Penmon’s Corporate Governance Heat Map – Containership Sector (2019)



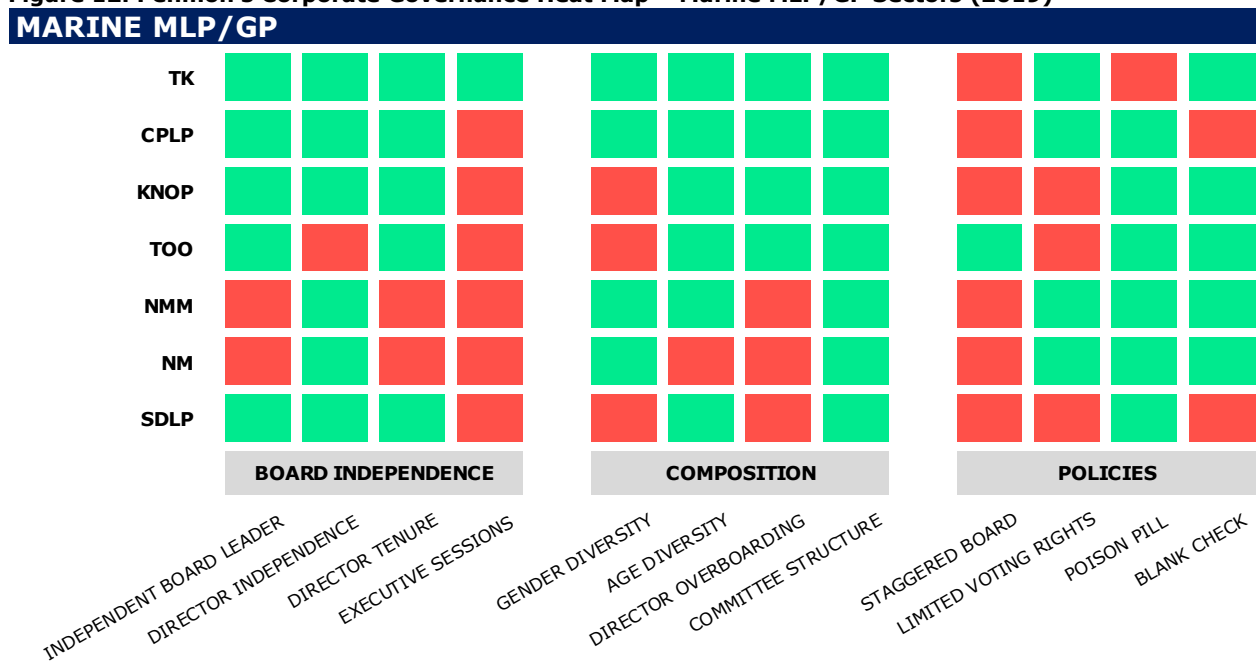
Source: Penmon

Figure 13. Penmon’s Corporate Governance Heat Map – Dry Bulk Sector (2019)



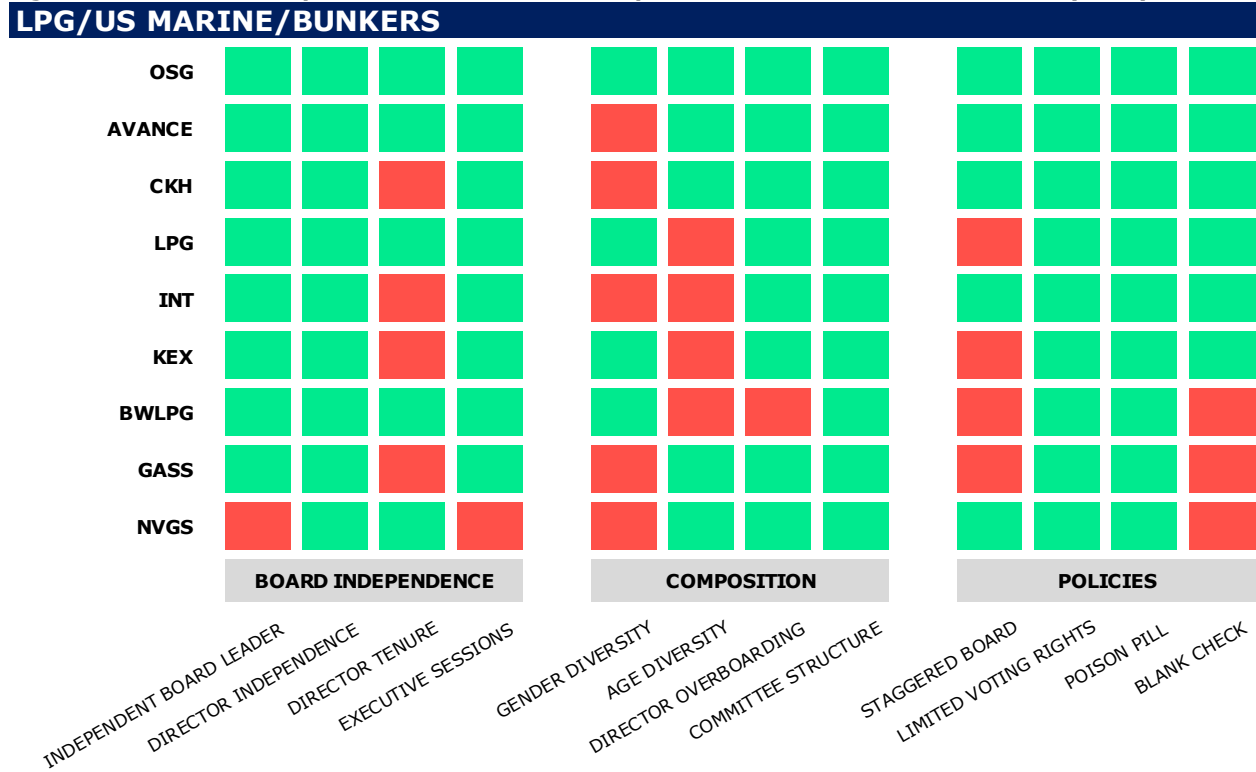
Source: Penmon

Figure 12. Penmon’s Corporate Governance Heat Map – Marine MLP/GP Sectors (2019)



Source: Penmon

Figure 14. Penmon’s Corporate Governance Heat Map – LPG/US Marine/Bunkers Sector (2019)



Source: Penmon

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