

## Corporate Governance Scorecard Volume IV - H217

### Shipping, Equipment Leasing, & Marine MLPs

- **H217 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 continue to believe that risk premiums associated with poor governance/capital discipline can (and 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 those kinds of vagaries, for which they're almost constantly at an informational disadvantage. We will not be adjusting our model to 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 shipping universe on a number of corporate governance metrics (Page 10), with the goal of identifying high quality shipping platforms 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 entire space.
- **Maintaining Our Existing Framework.** Earlier this year we adjusted our model by adding Board Composition and Board Policy factors, while also expanding the scope of our Board Independence factor, all of which was done in collaboration with corporate governance consulting firm **Penmon**. We've kept that framework intact for the fall, and will be evaluating any potential changes or additions in 2018.

#### Superior Governance Translates To Outperformance:

- Companies with the **strongest corporate governance** scores (AVANCE, EGLE, TRTN, OSG, INSW, MATX, GLOG, NVGS, ASC, SBLK, TGH, EURN, and KEX) **outperformed** the group by **17%** on a 1-year basis and **46%** on a 5-year basis.
- Companies with the **weakest corporate governance** scores (DRYS, GASS, DAC, ESEA, SB, TNP, DCIX, CMRE, DSX, DLNG, STNG, SALT, and NNA) **underperformed** the group by **(21%)** on a 1-year basis and **(28%)** on a 5-year basis.

Please see page 15 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 11/03/17 unless otherwise stated. 11/02/17 23:47:30 ET

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Together we'll go far

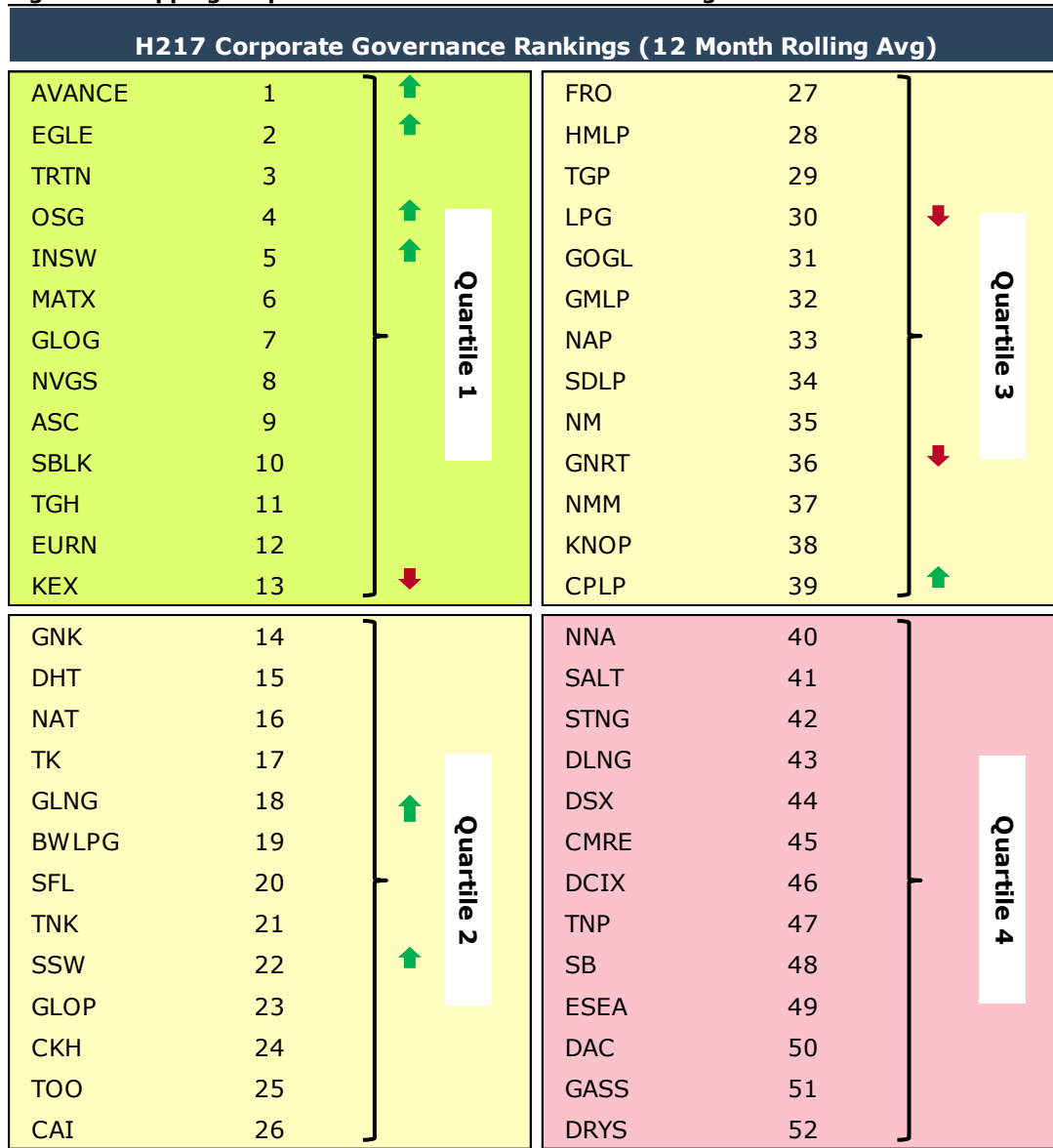


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## The H217 Scorecard Summary

**Figure 1. Shipping Corporate Governance Scorecard Rankings – H217**



Source: Wells Fargo Securities, LLC estimates

## Notes & Outliers

- The companies that had the **strongest** corporate governance scores within our framework were **AVANCE, EGLE, TRTN, OSG, INSW, MATX, GLOG, NVGS, ASC, SBLK, TGH, EURN,** and **KEX** as noted in Figure 1.
- The companies that had the **weakest** corporate governance scores within our model were **DRYS, GASS, DAC, ESEA, SB, TNP, DCIX, CMRE, DSX, DLNG, STNG, 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**, 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.
- **The Impact Of Revised Fee Structures: SSW, CPLP, STNG, and SALT.** All 4 names moved up in our rankings in the past year (to varying degrees) after removing certain related-party fee structures from their platforms. **SSW**'s score saw the most significant improvement (up 14 spots to Quartile 2) following material changes to their board and management fee structures, while **CPLP** moved up to the bottom of Quartile 3 with the full impact of its S&P fee removal earlier in the year. We note **SALT** and **STNG**'s improvement within our scorecard following their previous S&P fee removal has plateaued at the top of Quartile 4, largely due to the scope of their remaining related party relationships. As noted in Figure 6 on Page 7, as companies have started to make adjustments to their structures, our scorecard distribution is beginning to resemble a more traditional bell curve.
- **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's easily obfuscated or overrun by other dynamics like valuation and cyclical. 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:**
  - Our rolling 12-month scorecard now includes a full year of our updated methodology, which drove most of the more minor changes in our rankings. We note that the most significant change in data treatment was the inclusion and consistency of administrative and office lease relationships, which are counted as a related party transaction. In the future we may transition the treatment of these relationships into a separate category. As with our previous entries, there tended to be three primary clusters of scores: the top 15-16, a large middle section, and a small group at the bottom.
  - **Quartile 1: Unchanged from H117.** We note a full year of our updated methodology pushed **AVANCE, EGLE, OSG,** and **INSW** towards the top of Quartile 1, while a revision to the treatment of related party items moved **KEX** lower. We note the size of **KEX**'s move (from 1 to 13) based on a single factor change indicates just how tightly the top 15 companies are grouped.
  - **Quartile 2:** Three companies moved to Quartile 2 in H217: **SSW, CKH,** and **CAI.** **SSW** saw the largest move (up 14 places), while **CKH** and **CAI** moved to the bottom of Quartile 2 from the top of Quartile 3. We note that most of the scores in Quartiles 2 and 3 are tightly clustered.
  - **Quartile 3: TGP, HMLP,** and **LPG** moved down from Quartile 2 to 3, while **CPLP** moved up to Quartile 3 from Quartile 4. We note **LPG**'s move lower was among the largest in our current model, due to data adjustments (poison pill, related party), as well as continued flow through from our revised/expanded methodology.
  - **Quartile 4:** Quartile 4 remained largely unchanged with the exception of **CPLP** moving up, trading places with **SALT.** We note a **material** gap between the top and bottom half of Quartile 4.

## Recent Developments & Data Updates

Figure 2. Recent (Select) Company Specific Changes

| Ticker | Commentary  |
|--------|---|
| CPLP   | In October, Keith Forman (independent, non-executive director) replaced Ioannis Lazaridis (former CEO of CPLP, non-independent director) as Chairman of the Board.  |
| EURN   | EURN announced the resignation of John Michael Radziwell from its Board of Directors effective 5/17/16, along with the exit of Alice Wingfield Digby from its Board of Directors following the Annual Shareholders' Meeting on 5/11/17, and the re-appointment of Daniel R. Bradshaw to its Board of Directors for a 2-year term. These changes leave EURN with 7 Directors (5 independent).  |
| EURN   | We've adjusted EURN's data treatment to reflect the services agreement with CMB for office space leasing expiring in 2021. CMB's majority shareholder is Saverco, a company controlled by EURN's former Vice Chairman of its Board of Directors, Marc Saverys.  |
| GLNG   | Tor Olav Troim was officially appointed Chairman in September. While Tor had been the key decision maker at Golar, his previous title had simply been Director. There was no resulting change to their score.   |
| GLOG   | GLOG's former COO Graham Westgarth has been appointed to the board, replacing Philip Radziwill. There was no resulting change to their score, as both were considered non-independent.  |
| GLOG   | GLOG's data treatment was adjusted for office space in Piraeus, Greece leased from an entity controlled by Ceres Shipping, a company controlled by the Chairman Peter Livanos. The lease agreement is filed with the Greek authorities.   |
| GNK    | We have adjusted GNK's data to reflect transactions with parties related to GNK former Chairman, Peter Georgiopoulos. GNK incurred travel and office-related expenses reimbursable to Gener8 Maritime in 2016 where Georgiopoulos serves as the Chairman of its Board. GNK also entered into agreements with Aegean Marine Petroleum Network to purchase lubricating oils in 2016. Georgiopoulos was formerly the Chairman of Aegean. GNK invoiced Maritime Equity Partners LLC (MEP) for technical services on MEP's behalf in 2016. Georgiopoulos was a Director and minority shareholder of MEP. |
| KEX    | We have adjusted KEX's data to reflect the related party transactions between KEX and Key Energy, where Richard Alario (a current director) was formerly CEO, along with related party legal services and other relationships. These relationships adversely impact KEX's score. We note the size of KEX's move (from 1 to 13) based on a single factor change indicates just how tightly the top 15 companies are grouped.   |
| LPG    | We have adjusted LPG's data to reflect its ongoing relationship with Eagle Ocean Transport (100% owned by Chairman, President, and CEO, John Hadjipateras). LPG formerly outsourced vessel services to Dorian (Hellas) S.A (DHSA) which outsourced certain of these services to Eagle Ocean Transport. As of July 1, 2014, LPG transferred these services to wholly-owned subsidiaries; however Eagle Ocean Transport continues to incur travel and office-related costs subsequent to transition agreements.   |
| SALT   | We have adjusted SALT's data to reflect its Administrative Services Agreement with affiliated party, Scorpio Services Holding Limited (SSH) to which SALT pays administrative fees for administrative staff, office space, and accounting, legal, compliance, financial, and information technology services.   |
| STNG   | On 7/17/17, STNG announced it increased the size of its Board of Directors from eight to nine members by appointing Merrick Rayner as an independent Director effective upon the closing of STNG's merger with Navig8 Product Tankers.  |
| TOO    | On 7/26/17, TOO announced a strategic partnership with Brookfield Business Partners, with Brookfield granted four Board seats. Given the ownership structure, we do not consider the Brookfield Directors as independent, diluting TOO's independent board representation and their score within our model.   |
| DCIX   | We've adjusted DCIX's data to reflect the travel related services agreement with Altair Travel Agency, a company controlled by CEO and Chairman of the Board, Symeon Palios.  |
| DRYS   | On 7/27 DRYS announced the appointment of two new Directors to its Board: Anthony Kandyliadis and Andreas Argyropoulos. Kandyliadis has been the DRYS President and CFO since December 2016, and is a relative of Chairman George Economou. Argyropoulos spent the past five years in a variety of positions with Economou controlled Ocean Rig UDW Inc., among other roles. No impact to DRYS's independence score, as it was already in the bottom quartile for that factor.  |
| DRYS   | DRYS announced in its Q217 earnings release that it had <b>received a subpoena from the SEC</b> requesting documents in relation to its issuance of common stock through Kalani Investments between 6/2016 and 6/2017. The investigation will determine whether DRYS violated securities laws.  |
| ESEA   | George Skarvelis resigned from ESEA's Board of Directors in May without replacement, lowering the BOD total to 7 members. Tim Gravely resigned from the Board in July, with his replacement yet to be nominated with ESEA's Board sitting at 6 members. ESEA also signed multiple agreements with Colby Trading (affiliated with ESEA's CEO) to provide financing.  |

Source: Company filings

## 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 32% over the past 5-years**, compared to an **average 5-year total return of -30% for Quartiles 2-4** (vs. the 5-year total return for the S&P 500 of 84%). While we believe cyclical pressure has impacted those 5-year return totals across the board, we believe the **62% 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.

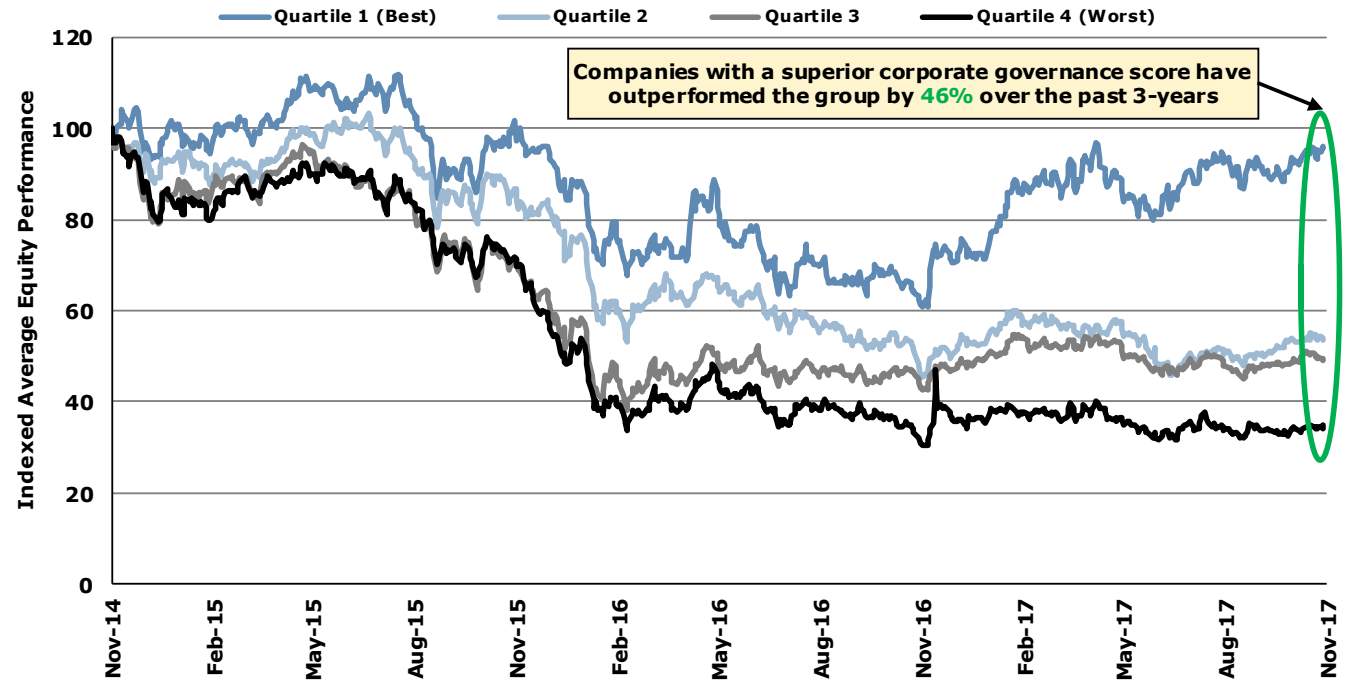
**Figure 3. Price, Performance, And Rating By Quartile Rank**

| November 2017 Shipping Corporate Governance Rankings  |                |                |                   |                |            |            |              |                                      |
|---|----------------|----------------|-------------------|----------------|------------|------------|--------------|--------------------------------------|
|   | Ticker         | Rating         | Price<br>11/1/17  | % Total Return |            |            |              |                                      |
|   |                |                |                   | YTD            | 1 Year     | 3 Year     | 5 Year       | Since Inception/10-Year <sup>1</sup> |
| <b>Quartile 1</b><br><br>Marine names with top-tier governance have outperformed on a YTD, 1-year, 3-year, and 5-year basis | AVANCE         | Market Perform | \$2.44            | (25%)          | 6%         | (73%)      | N/A          | (62%)                                |
|   | EGLE           | Not Rated      | \$4.48            | (23%)          | 5%         | N/A        | N/A          | (43%)                                |
|   | TRTN           | Outperform     | \$39.61           | 162%           | 261%       | N/A        | N/A          | 176%                                 |
|   | OSG            | Not Rated      | \$2.30            | (40%)          | (26%)      | N/A        | N/A          | (68%)                                |
|   | INSW           | Not Rated      | \$20.24           | 44%            | N/A        | N/A        | N/A          | 56%                                  |
|   | MATX           | Underperform   | \$27.06           | (22%)          | (30%)      | (14%)      | 33%          | 9%                                   |
|   | GLOG           | Outperform     | \$17.25           | 10%            | 18%        | 1%         | 67%          | 65%                                  |
|   | NVGS           | Outperform     | \$10.20           | 10%            | 48%        | (56%)      | (5%)         | (22%)                                |
|   | ASC            | Outperform     | \$8.50            | 15%            | 55%        | (15%)      | N/A          | (28%)                                |
|   | SBLK           | Not Rated      | \$10.67           | 109%           | 162%       | N/A        | N/A          | 143%                                 |
|   | TGH            | Market Perform | \$18.90           | 154%           | 149%       | (39%)      | (23%)        | 85%                                  |
|   | EURN           | Not Rated      | \$8.50            | (1%)           | 15%        | (0%)       | 95%          | (45%)                                |
|   | KEX            | Market Perform | \$70.60           | 6%             | 21%        | (31%)      | 26%          | 56%                                  |
|   | <b>Average</b> |                |                   |                | <b>31%</b> | <b>57%</b> | <b>(29%)</b> | <b>32%</b>                           |
| <b>Quartile 2</b>   | GNK            | Market Perform | \$12.02           | 63%            | 117%       | (92%)      | N/A          | (94%)                                |
|   | DHT            | Not Rated      | \$4.08            | 3%             | 16%        | (15%)      | 47%          | (85%)                                |
|   | NAT            | Market Perform | \$4.37            | (44%)          | (39%)      | (32%)      | (29%)        | (72%)                                |
|   | TK             | Market Perform | \$8.19            | 4%             | 34%        | (83%)      | (70%)        | (78%)                                |
|   | GLNG           | Outperform     | \$21.71           | (5%)           | 4%         | (53%)      | (34%)        | 27%                                  |
|   | BWLPG          | Market Perform | \$3.77            | (15%)          | 13%        | (31%)      | N/A          | 0%                                   |
|   | SFL            | Not Rated      | \$15.05           | 11%            | 37%        | 26%        | 62%          | 51%                                  |
|   | TNK            | Market Perform | \$1.50            | (30%)          | (26%)      | (59%)      | (25%)        | (81%)                                |
|   | SSW            | Market Perform | \$6.72            | (20%)          | (25%)      | (56%)      | (37%)        | (55%)                                |
|   | GLOP           | Outperform     | \$23.75           | 23%            | 30%        | 33%        | N/A          | 20%                                  |
|   | CKH            | Not Rated      | \$46.94           | 11%            | 69%        | 5%         | 22%          | 31%                                  |
|   | TOO            | Outperform     | \$2.60            | (46%)          | (47%)      | (88%)      | (86%)        | (80%)                                |
|   | CAI            | Market Perform | \$36.23           | 318%           | 403%       | 64%        | 56%          | 142%                                 |
|   | <b>Average</b> |                |                   |                | <b>21%</b> | <b>45%</b> | <b>(29%)</b> | <b>(10%)</b>                         |
| <b>Quartile 3</b>   | FRO            | Market Perform | \$6.26            | (7%)           | (5%)       | N/A        | N/A          | N/A                                  |
|   | HMLP           | Not Rated      | \$18.35           | 5%             | 14%        | 8%         | N/A          | 7%                                   |
|   | TGP            | Outperform     | \$17.50           | 28%            | 36%        | (45%)      | (35%)        | 11%                                  |
|   | LPG            | Market Perform | \$7.15            | (13%)          | 23%        | (54%)      | N/A          | (62%)                                |
|   | GOGL           | Not Rated      | \$8.07            | 71%            | 124%       | N/A        | N/A          | (62%)                                |
|   | GMLP           | Market Perform | \$21.51           | (1%)           | 28%        | (9%)       | 20%          | 50%                                  |
|   | NAP            | Market Perform | \$9.14            | (5%)           | 4%         | (9%)       | N/A          | (6%)                                 |
|   | SDLP           | Underperform   | \$3.98            | (0%)           | 34%        | (72%)      | (74%)        | (72%)                                |
|   | NM             | Not Rated      | \$1.81            | 28%            | 77%        | (66%)      | (44%)        | (83%)                                |
|   | GNRT           | Not Rated      | \$4.74            | 6%             | 21%        | N/A        | N/A          | (65%)                                |
|   | NMM            | Market Perform | \$2.07            | 47%            | 75%        | (81%)      | (78%)        | (73%)                                |
|   | KNOP           | Market Perform | \$23.00           | 7%             | 27%        | 41%        | N/A          | 59%                                  |
|   | CPLP           | Outperform     | \$3.38            | 14%            | 30%        | (44%)      | (15%)        | (57%)                                |
|   | <b>Average</b> |                |                   |                | <b>14%</b> | <b>38%</b> | <b>(33%)</b> | <b>(37%)</b>                         |
| <b>Quartile 4</b>   | NNA            | Underperform   | \$1.25            | (19%)          | 10%        | (39%)      | (26%)        | (76%)                                |
|   | SALT           | Not Rated      | \$7.80            | 54%            | 123%       | (83%)      | N/A          | (93%)                                |
|   | STNG           | Not Rated      | \$3.49            | (22%)          | (4%)       | (52%)      | (32%)        | (66%)                                |
|   | DLNG           | Market Perform | \$13.15           | (5%)           | 18%        | (4%)       | N/A          | 14%                                  |
|   | DSX            | Market Perform | \$3.99            | 32%            | 64%        | (49%)      | (47%)        | (87%)                                |
|   | CMRE           | Outperform     | \$6.00            | 14%            | 2%         | (62%)      | (39%)        | (16%)                                |
|   | DCIX           | Underperform   | \$0.30            | (100%)         | (100%)     | (100%)     | (100%)       | (100%)                               |
|   | TNP            | Market Perform | \$4.47            | (3%)           | 14%        | (26%)      | 52%          | (79%)                                |
|   | SB             | Not Rated      | \$3.40            | 196%           | 172%       | (37%)      | 5%           | (70%)                                |
|   | ESEA           | Market Perform | \$1.77            | 5%             | 46%        | (82%)      | (82%)        | (98%)                                |
|   | DAC            | Not Rated      | \$1.45            | (45%)          | (44%)      | (75%)      | (45%)        | (95%)                                |
|   | GASS           | Market Perform | \$3.55            | 5%             | 31%        | (52%)      | (51%)        | (78%)                                |
|   | DRYS           | Not Rated      | \$3.89            | (100%)         | (100%)     | (100%)     | (100%)       | (100%)                               |
|   | <b>Average</b> |                |                   |                | <b>1%</b>  | <b>18%</b> | <b>(58%)</b> | <b>(42%)</b>                         |
| <b>S&amp;P 500</b>  |                |                | <b>\$2,579.36</b> | <b>4%</b>      | <b>21%</b> | <b>26%</b> | <b>83%</b>   | <b>72%</b>                           |

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

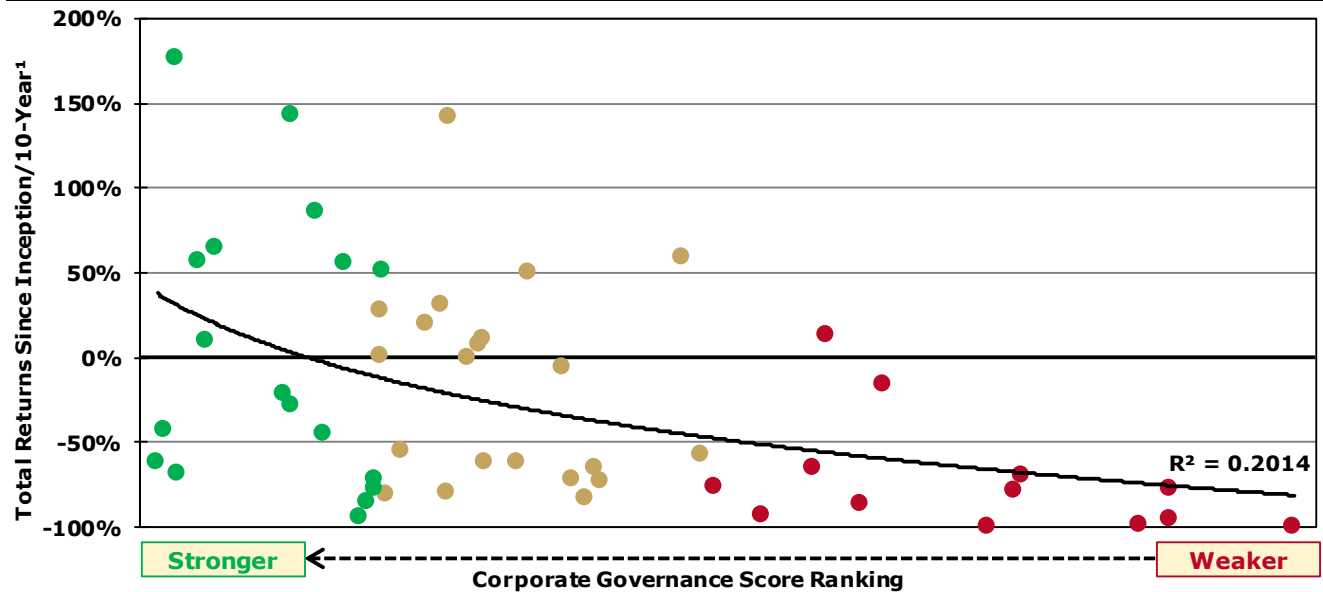
- Stronger Corporate Governance Has Generally Been Associated With Stronger Returns.** As noted in Figure 4, our **Quartile 1 grouping** (AVANCE, EGLE, TRTN, OSG, INSW, MATX, GLOG, NVGS, ASC, SBLK, TGH, EURN, and KEX), **generally outperforming our other quartile groupings** (down 4% over the past three years), while our **Quartile 4 grouping** (DRYS, GASS, DAC, ESEA, SB, TNP, DCIX, CMRE, DSX, DLNG, STNG, SALT, and NNA) which represents companies with the lowest degree of corporate governance amid our universe, **generally underperforming the other groups** (down 62% over the past three years).

**Figure 4. Average Equity Performance By Corporate Governance Quartile Ranking**

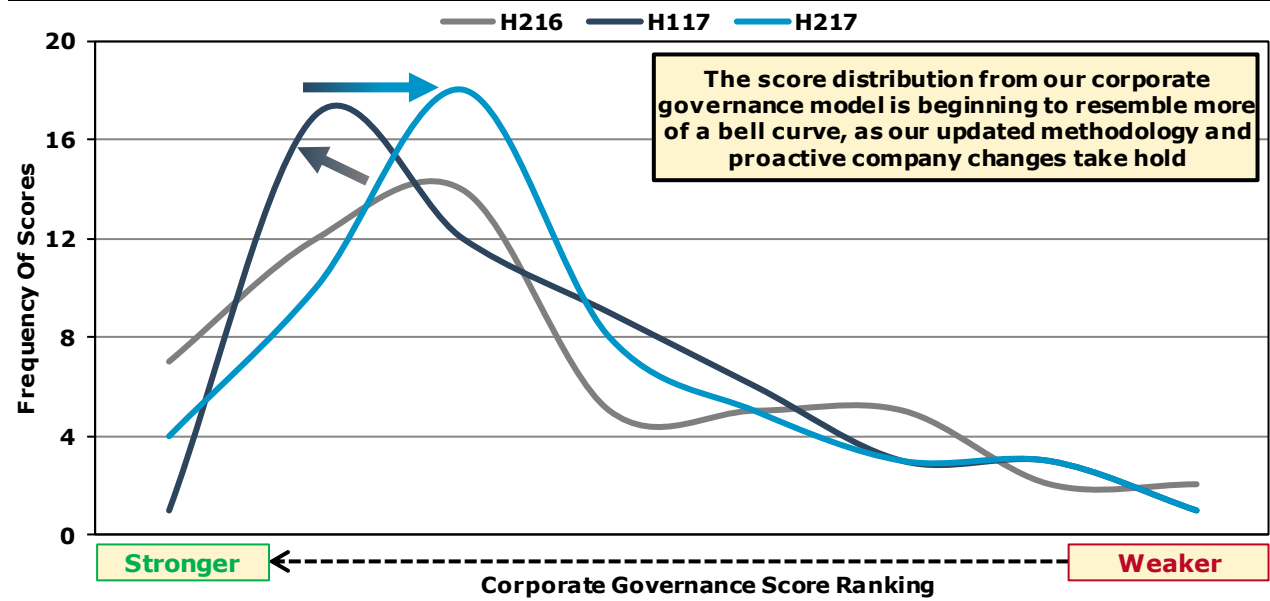


Source: Capital IQ, Wells Fargo Securities, LLC

**Figure 5. Total Return Since Inception/10-Year<sup>1</sup> Vs. Scorecard Ranking**



<sup>1</sup> 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**

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 six 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 technical and (2) commercial management fees, (3) S&P fees, (4) related-party transactions, and (5) the level of independent board membership is evaluated. We also add a subjective factor (6) 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**.
- Earlier this year, 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](http://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 And Previous Corporate Governance Scorecard Factors**

|           | <i>Previous Corporate Governance Factor</i> | <i>Weight</i> |
|-----------|---|---------------|
| Factor #1 | Related Party Commercial Management         | 17%           |
| Factor #2 | Related Party Technical Management          | 17%           |
| Factor #3 | Sale And Purchase Fees                      | 17%           |
| Factor #4 | Related Party Transactions                  | 17%           |
| Factor #5 | Independent Board Membership                | 17%           |
| Factor #6 | Subjective                                  | 17%           |



|           | <i>Current Corporate Governance Factor</i> | <i>Weight</i> |
|-----------|--|---------------|
| 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 personal fleets. DRYX comes to mind, with DSX, TNP, and others all recently transacting with a private arm. This also includes real estate and other assets.
- **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 factor's 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 <sup>1</sup> |      | % Independent Board |      |
|--------|------------|----------|------|-----------------|------|----------------|------|------------------------|------|---|------|---------------------|------|
|        |            | H217     | H117 | H217            | H117 | H217           | H117 | H217                   | H117 | H217                                    | H117 | H217                | H117 |
| TGH    | Container  | 1        | 1    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 33%                 | 29%  |
| CAI    | Container  | 2        | 3    | No              | No   | No             | No   | No                     | No   | Yes                                     | Yes  | 33%                 | 43%  |
| CMRE   | Container  | 4        | 4    | Yes             | Yes  | Yes            | Yes  | Yes                    | Yes  | No                                      | No   | 40%                 | 40%  |
| SSW    | Container  | 2        | 3    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 67%                 | 67%  |
| DCIX   | Container  | 4        | 4    | Yes             | Yes  | No             | No   | Yes                    | Yes  | Yes                                     | No   | 57%                 | 57%  |
| 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%  |
| SBLK   | Dry Bulk   | 1        | 1    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 63%                 | 88%  |
| DSX    | Dry Bulk   | 4        | 4    | No              | No   | No             | No   | Yes                    | Yes  | Yes                                     | Yes  | 67%                 | 67%  |
| ESEA   | Dry Bulk   | 4        | 4    | Yes             | Yes  | Yes            | Yes  | Yes                    | Yes  | Yes                                     | No   | 50%                 | 63%  |
| SB     | Dry Bulk   | 4        | 4    | Yes             | Yes  | Yes            | Yes  | Yes                    | Yes  | Yes                                     | Yes  | 43%                 | 43%  |
| SALT   | Dry Bulk   | 4        | 3    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | No   | 71%                 | 71%  |
| DRYS   | Dry Bulk   | 4        | 4    | Yes             | Yes  | Yes            | Yes  | Yes                    | Yes  | Yes                                     | Yes  | 20%                 | 67%  |
| EGLE   | Dry Bulk   | 1        | 1    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 86%                 | 86%  |
| GOGI   | Dry Bulk   | 3        | 3    | No              | No   | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 50%                 | 60%  |
| GNK    | Dry Bulk   | 2        | 2    | No              | No   | No             | No   | No                     | No   | Yes                                     | No   | 78%                 | 78%  |
| GLNG   | Marine GP  | 2        | 2    | No              | No   | No             | No   | No                     | No   | Yes                                     | Yes  | 86%                 | 86%  |
| GLOG   | Marine GP  | 1        | 1    | No              | No   | No             | No   | No                     | No   | Yes                                     | No   | 50%                 | 50%  |
| TK     | Marine GP  | 2        | 2    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 90%                 | 78%  |
| NM     | Marine GP  | 3        | 3    | No              | No   | No             | No   | No                     | No   | Yes                                     | Yes  | 57%                 | 57%  |
| GLOP   | Marine MLP | 2        | 2    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 57%                 | 57%  |
| GMLP   | Marine MLP | 3        | 3    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 86%                 | 86%  |
| TGP    | Marine MLP | 3        | 2    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 80%                 | 80%  |
| TOO    | Marine MLP | 2        | 2    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 44%                 | 80%  |
| NAP    | Marine MLP | 3        | 3    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 57%                 | 57%  |
| NMM    | Marine MLP | 3        | 3    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 57%                 | 57%  |
| SDLP   | Marine MLP | 3        | 3    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 83%                 | 83%  |
| KNOP   | Marine MLP | 3        | 3    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 86%                 | 86%  |
| CPLP   | Marine MLP | 3        | 4    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 57%                 | 50%  |
| HMLP   | Marine MLP | 3        | 2    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 71%                 | 71%  |
| DLNG   | Marine MLP | 4        | 4    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 40%                 | 40%  |
| AVANCE | LPG        | 1        | 1    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 71%                 | 100% |
| NVGS   | LPG        | 1        | 1    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 86%                 | 86%  |
| LPG    | LPG        | 3        | 2    | No              | No   | No             | No   | No                     | No   | Yes                                     | No   | 71%                 | 71%  |
| BWLPG  | LPG        | 2        | 2    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 71%                 | 100% |
| 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   | 88%                 | 89%  |
| EURN   | Tankers    | 1        | 1    | No              | No   | No             | No   | No                     | No   | Yes                                     | No   | 71%                 | 90%  |
| ASC    | Tankers    | 1        | 1    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 63%                 | 88%  |
| DHT    | Tankers    | 2        | 2    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 100%                | 100% |
| OSG    | Tankers    | 1        | 1    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 88%                 | 90%  |
| NAT    | Tankers    | 2        | 2    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 80%                 | 80%  |
| TNK    | Tankers    | 2        | 2    | No              | No   | No             | Yes  | No                     | No   | Yes                                     | Yes  | 57%                 | 67%  |
| FRO    | Tankers    | 3        | 3    | No              | No   | No             | No   | No                     | No   | Yes                                     | Yes  | 33%                 | 50%  |
| GNRT   | Tankers    | 3        | 3    | Yes             | Yes  | No             | No   | No                     | No   | Yes                                     | No   | 57%                 | 71%  |
| NNA    | Tankers    | 4        | 4    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 43%                 | 57%  |
| TNP    | Tankers    | 4        | 4    | Yes             | Yes  | Yes            | Yes  | Yes                    | Yes  | Yes                                     | Yes  | 67%                 | 80%  |
| STNG   | Tankers    | 4        | 4    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | No   | 67%                 | 63%  |
| SFL    | Tankers    | 2        | 2    | Yes             | Yes  | Yes            | Yes  | No                     | No   | Yes                                     | Yes  | 80%                 | 100% |
| CKH    | US Marine  | 2        | 3    | No              | No   | No             | No   | No                     | No   | Yes                                     | Yes  | 60%                 | 57%  |
| KEX    | US Marine  | 1        | 1    | No              | No   | No             | No   | No                     | No   | Yes                                     | No   | 78%                 | 78%  |
| MATX   | US Marine  | 1        | 1    | No              | No   | No             | No   | No                     | No   | No                                      | No   | 86%                 | 88%  |

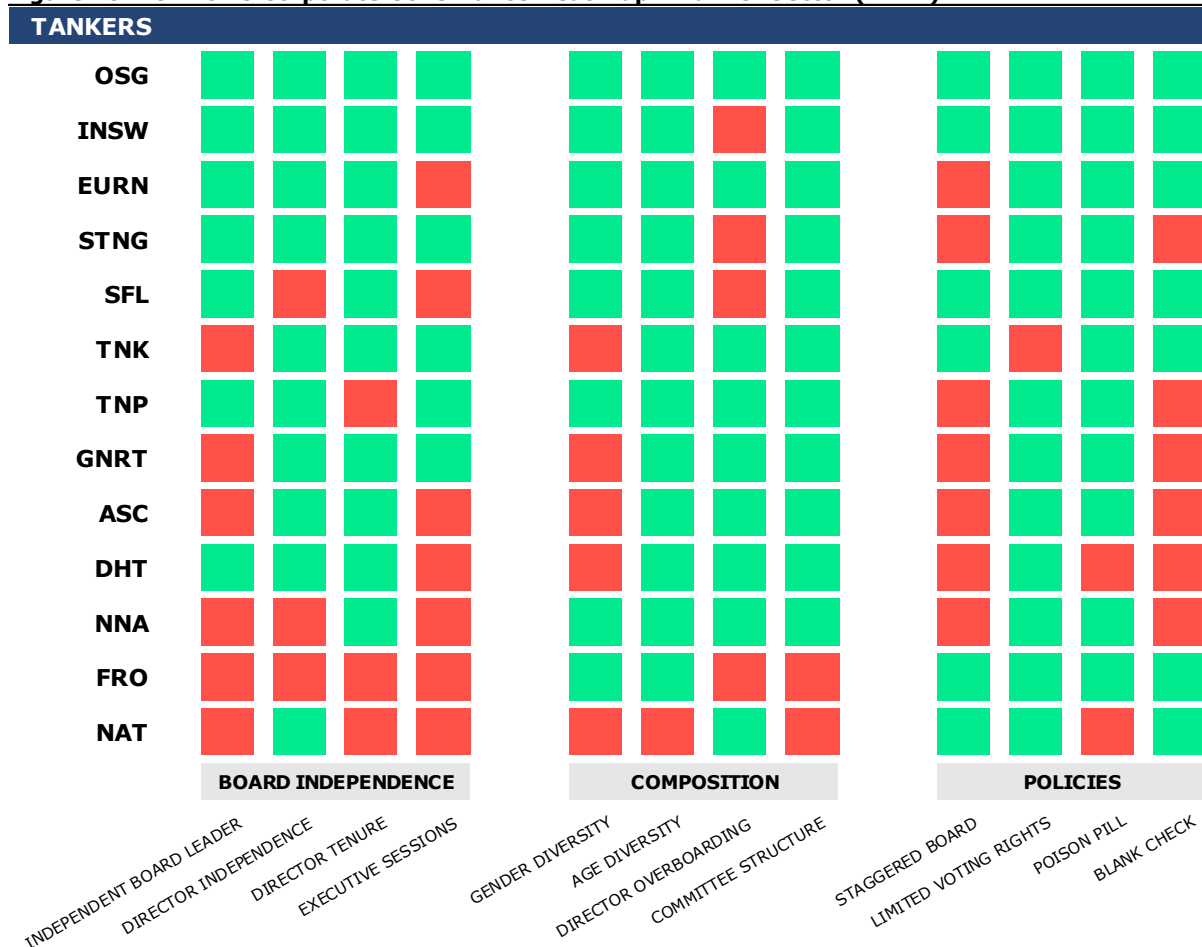
<sup>1</sup> We note the majority of changes within our Related Party Transactions stem from the treatment of administrative and office leases  
 Source: Company filings, Wells Fargo Securities, LLC estimates

**Figure 9. Penmon’s Corporate Governance Heat Map – Containership Sector (H217)**



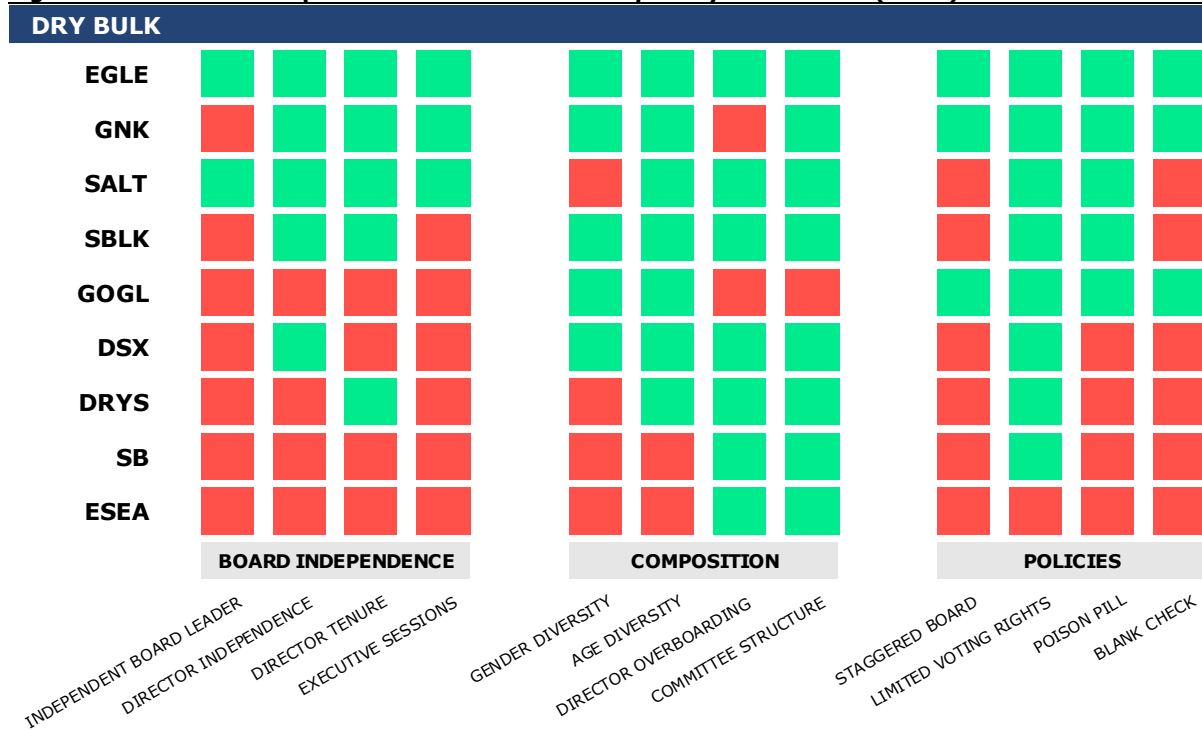
Source: Penmon

**Figure 10. Penmon’s Corporate Governance Heat Map – Tanker Sector (H217)**



Source: Penmon

**Figure 11. Penmon’s Corporate Governance Heat Map – Dry Bulk Sector (H217)**



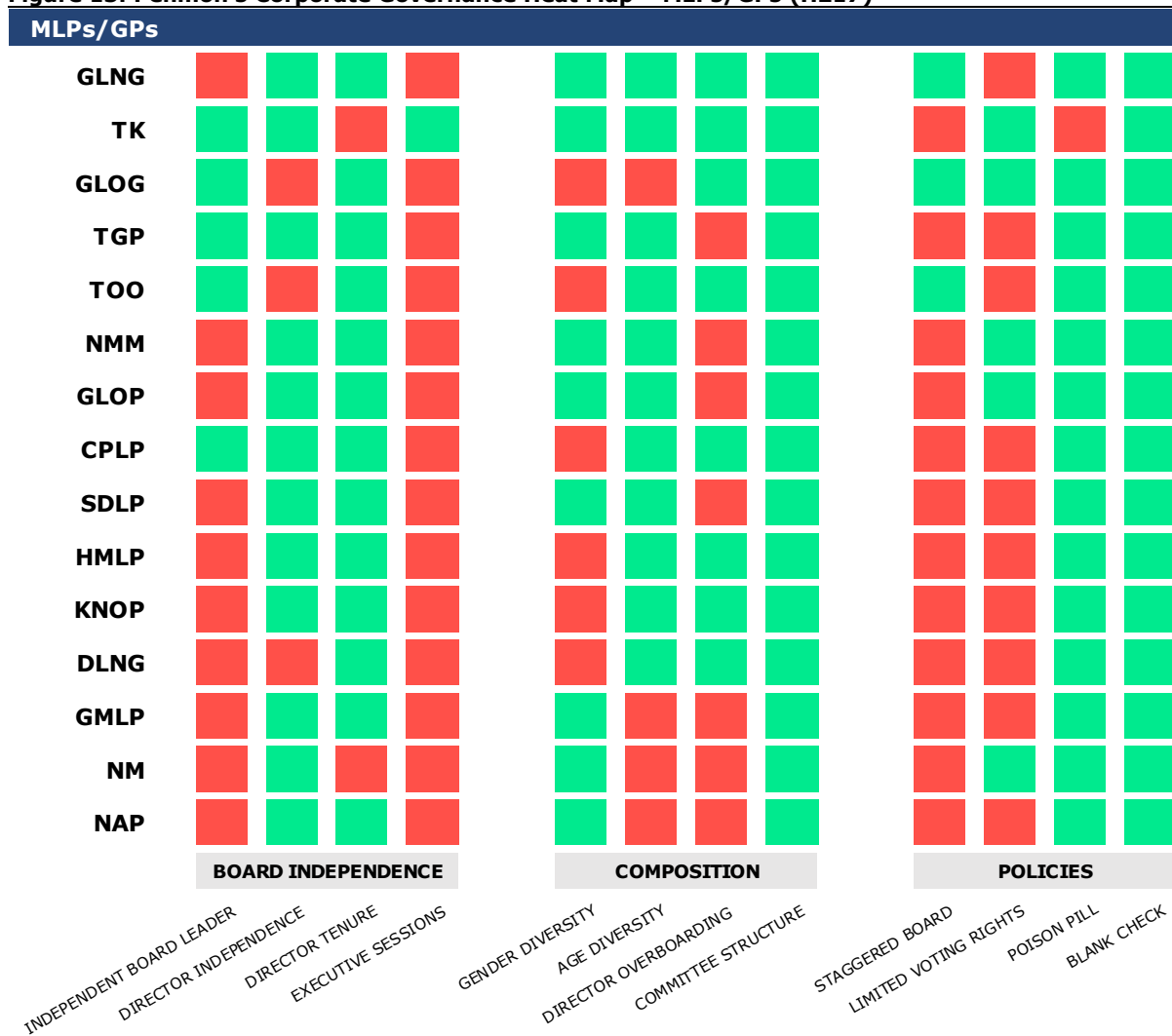
Source: Penmon

**Figure 12. Penmon’s Corporate Governance Heat Map – LPG/US Marine Sectors (H217)**



Source: Penmon

**Figure 13. Penmon’s Corporate Governance Heat Map – MLPs/GPs (H217)**



Source: Penmon

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