

# SRD II Annual Disclosure

| June 2021 |

## Engagement Policy

### Integration of shareholder engagement within IW&I's investment strategy

### Monitors investee companies on relevant matters, including:

- strategy;
- financial and non-financial performance and risk;
- capital structure; and
- social and environmental impact and corporate governance.

## How this has been implemented

Investec Wealth & Investment's (IW&I) Investment Corporate Governance Committee (ICGC) is chaired by a member of the Executive Committee (ExCo) and reports to ExCo twice a year on the activity of the Equity and Collectives Corporate Governance Forums.

This report will include a summary of our engagement through voting at company meetings and any notable engagement with companies and other stakeholders outside of formal meetings.

This is the responsibility of the research analysts responsible for IW&I's centrally researched stock and fund universe.

### Equity

Ongoing monitoring includes, but is not limited to:

Analysis of scheduled and unscheduled newsflow from investee companies. Notable events are broadcast to the firm's Investment Managers through a Daily Morning Meeting and ongoing written commentary. All comments are stored in an electronic library system.

We will analyse the merits and potential of an industry, the investee company's position therein and the level and consistency of a group's financial returns, primarily using a cash flow return on investment methodology, both Credit Suisse's HOLT product and a proprietary in-house model. The appropriateness of a capital structure will be monitored from the perspectives of conventional leverage metrics, market implied measures such as Credit Default Swaps and the views of the credit rating agencies.

Our Environmental, Social and Governance (ESG) analysis of direct equities is based on the detailed analysis conducted by Sustainalytics, a specialist third-party provider of detailed ESG data. Any ongoing investments and proposed new additions to the researched list

## Conducts dialogues with investee companies

will need to demonstrate strong industry-relative ESG credentials. Stocks that score poorly will be removed from central coverage.

### Collectives

Ongoing monitoring of collective investments on our Researched list according to our proprietary 'APPROVED' framework (applied to all open and closed ended vehicles), with an operationally-focused Annual Quality Review.

This framework incorporates a number of quantitative and qualitative assessments of each fund's strategy, investable universe (operating environment), and execution.

With no completely satisfactory third party analysis of funds from an ESG perspective, we have developed our own in-house process which includes a detailed analysis of the third party's attitude to and integration of ESG considerations. This is incorporated fully into the APPROVED Framework.

### Equity

Where possible we will meet regularly with the management teams of the companies that are of the highest priority to us. By necessity over the last 12-months these meetings have shifted from being held physically at our offices to being virtual. We have however ensured full access to these conversations for all of our Investment Managers across the group.

### Collectives

For open ended funds, in conjunction with the investment monitoring schedule, we will meet with representatives of management to discuss any governance issues when required.

In addition, engagement with the chairman of each of our investee listed investment companies is built into the yearly monitoring and voting schedule.

These meetings take the form of a structured dialogue which is recorded in our system. If required, we will escalate any matters further through methods such as letter writing, where we request a formal reply from the board. We can further escalate through voting our shares at the AGM or requesting an EGM if appropriate. These actions are coordinated through the Collectives Corporate Governance Forum.

During the year we have engaged meaningfully and successfully across a wide range of our investments.

Firstly, we are substantial shareholders in two listed hedge funds where the investment manager sought to end a fee reduction that had been in place for some time. We anticipated that this could precipitate the demise of either or both vehicles unless both boards and shareholders worked closely together and with the investment manager to consider all available options that would result in this valuable investment offering remaining available to our investors. Through numerous interactions with the investment manager, both boards and conversations with fellow shareholders, we encouraged all parties to be amenable to solutions that would benefit all stakeholders. At the time of writing this matter is ongoing, but we are confident that should an acceptable solution be found, our engagement will have been instrumental in this hedge fund capability remaining in the listed space.

Secondly, we engaged with the vast majority of our listed real estate companies on the matter of costs and charges, specifically annual management charges. Whilst all our investments currently meet our 'value for money' criteria, we have engaged with boards to consider a broader and more meaningful range of metrics to drive annual management charges. We believe these will ultimately lead to lower costs and structures that are more aligned with shareholders' interests. These engagements are ongoing.

Thirdly, across all of our collective investment vehicles, we have engaged boards and fund management teams on ESG integration. We are committed to building on our ESG integration and these engagements, often involving face-to-face meetings with fund management teams and boards, will continue.

We have also carried out various engagements with the board and shareholders of a credit investment trust, which had experienced a difficult credit environment. Board engagement focussed around replacement of the investment advisor, fee structure and board composition. We were successful in all of these aspects. We also discussed with the board about asset carrying value in previous reporting periods. The company has gone into wind-down and the managers and board have demonstrated ability to return capital to shareholders in a timely manner. We also engaged with other shareholders to develop a cohesive proposition for board composition.

## **Exercises voting rights and other rights attached to shares**

We carried out various engagements with the board of a second credit investment trust, which also experienced a difficult credit environment. The discussions centred around board composition, and the return of capital to shareholders, which was achieved in a timely manner and at a premium to asset carrying value.

Finally, further to previous disclosures in relation to the ongoing engagement with the board of an investment trust, we have subsequently voted (successfully) against further proposals put to shareholders. We have now received confirmation that a large shareholder affiliated with the investment manager will not vote at the upcoming EGM, thereby increasing the likelihood of a resolution in the form of a wind-up with the return of capital this year.

We use the services of ISS, a proxy adviser, to inform our voting decisions, but make the final decision and implement the vote ourselves.

Where possible, in any year we intend to routinely vote on all ballot items for direct equities on our centrally researched list where we hold (on a discretionary basis): more than £10m worth or more than 1% of the outstanding equity or, irrespective of the size of holding, if we intend to vote against the board's recommendation.

We will vote on all centrally researched investment companies, unless we have less than 2% of the share capital AND have less than £10m invested. We will also vote on investment companies that are not centrally researched where we hold over 10% of the share capital, or on any investment trust which is not centrally researched where we believe that voting on any or all resolutions would be in the best interests of our clients.

This focuses our voting on companies that are significant either because of the materiality of our holdings or because of the presence of controversial proposals.

For open-ended collectives where voting is not required, should there be an issue that requires shareholder approval (for example an amendment to terms) we will register our views as appropriate. This will also be referred to the Collectives Corporate Governance Forum.

In a typical year this should see us voting on c.70% of our AUM in centrally researched direct equities and investment companies.

Direct Equities: So far in 2021, to the end of May, we have voted at 111 company meetings and cast 1,935 votes. On 52 occasions we voted contrary to the board's recommendation. Most commonly (on 18 occasions) we opposed elements of the Remuneration Policy or Remuneration Report, but we also voted with shareholder proposals in 24 instances – these cover a variety of issues from increasing the ease with which shareholders can call EGMs to calling for independent Chairmen.

Investment Companies: So far in 2021, to the end of May, we have voted at 43 company meetings and cast 458 votes, of which 17 related to exception/special meetings. We voted against a resolution once over the period, but note that the majority of investment company AGMs are in the latter half of the year. Investment companies are typically not operating companies so their day-to-day operations are outsourced to external fund managers. This means board resolutions tend to be smaller in scope and, often, less controversial than direct equities. Externally managed investment companies typically outsource their substantive activities (i.e. investment management) to external fund managers and we as shareholders have a direct engagement route to these fund managers to discuss matters of concern such as annual management charges or investment performance. These are often highly productive and influential relationships that negate the need to vote against management resolutions at AGMs or EGMs. Throughout the year the collectives team engaged significantly with the centrally researched investment companies ensuring their opinions and voices were heard on important matters.

### **Cooperates with other shareholders**

We support and seek collaboration with other shareholders, when it is necessary to increase our influence on specific issuer decisions, endeavouring to ensure that they are made to the benefit of our clients.

Our engagement and collaboration is typically prompted by a situation in which we intend to vote against or express our discontent with management decisions, where we may not have a sufficient position in the investee company to be as influential as working with other shareholders who echo our beliefs or concerns.

**Communicates with relevant stakeholders of the investee companies**

Examples of issues include:

- Situations where there is a lack of transparency.
- Concerns over management or board competence and whether they will be able to deliver on their promises.
- Concerns over the underlying assets and ultimately the performance of the investment.

We will provide a summary report of all our voting activity for discretionary accounts. In addition, where it does not breach any confidentiality, we may share examples of where we have engaged with management. A central record of voting activity is maintained.

**Manages actual and potential conflicts of interest in relation to the firm's engagement**

Investec Wealth & Investment has a comprehensive Conflicts of Interest policy to which all employees are expected to adhere. The policy aims to prevent conflicts of interest, and where that is not possible, to identify and manage them. The policy details the different types of inherent conflicts of interest that have been identified within our business and the controls adopted to manage these. A summary of Investec Wealth & Investment's Conflicts of Interest Policy is available upon request.

The Collectives and Equities Corporate Governance Forums are responsible for determining voting policy on all resolutions. Where IW&I's Research team advise voting against any resolutions, they will notify Investment Managers who must advise where their client may want to vote differently from the firm.

