

Active Ownership & Stewardship Policy

Owner	CIO
Approval	CIO
Relates to	Flagship Investments Limited
Date Last Updated	31-12-2022
Primary Rules/Rationale	To outline commitments of being an active owner and the incorporating of ESG issues into ownership policies and practices.

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Policy

Introduction

Overview

This policy formally outlines Flagship Investments Limited (FSI) principles and commitments to being an active owner and incorporating Environmental, Social and Governance (ESG) issues into our ownership policies and practices including share voting, company engagement and advocacy activities.

The issues captured by the term 'ESG' are not necessarily static but may change over time as issues become more important or community values or sentiment changes. FSI believes that ESG factors can have a material impact on the long-term outcomes of investment portfolios and the assets in which we invest.

While FSI is committed to ensuring superior investment returns, we recognise the importance and effectiveness of active ownership in producing real-world outcomes at scale, as too sharp a focus on maximising returns while minimizing risks may undermine broader investment, economic and social goals.

Active ownership is our opportunity to improve sustainable corporate practices and is a key way to help deliver long-term value creation for our investors. We believe that focusing on common goals and outcomes, we can help drive responsible investment practices and support our community in sustainable activities, climate stability, and a financial system that supports the real economy.

Objective

FSI's approach to active ownership and the incorporation of ESG issues into our ownership practices will differ depending on the underlying investment characteristics.

Where appropriate, FSI will seek to exert influence on the governance, policies, practices, and management of that entity.

Application

This policy applies to FSI's Investment Manager.

FSI's Active Ownership & Stewardship Policy will be consistent with other FSI investment, strategic or operational policies and processes, including the Manager's Investment Policy.

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Active Ownership Principles

Principles

We aim to improve the long-term investment outcomes of the asset through our active stewardship and voting policy by promoting:

1. Transparency;
2. Accountability;
3. Independence; and
4. Long-term value.

Commitment to PRI

FSI supports the United Nations-backed Principles for Responsible Investment Initiative (PRI),

The principles for responsible investment provide guidance on how to integrate the consideration of ESG factors into our investment decision-making and ownership practices.

The Investment Manager is committed to applying the principles in our investment processes. In particular, this Policy represents FSI's commitment to PRI Principle 2 'we will be active owners and incorporate ESG issues into our ownership policies and practices'.

Framework

Application

The responsibility for the development, implementation and monitoring of this policy sits with the Manager.

Implementation

FSI will be an active owner and incorporate ESG issues into our ownership policies and practices through share voting. The Investment Manager will be responsible for engagement and advocacy.

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Company Engagement

At FSI, engaging with investee companies is a core part of our active ownership and stewardship strategy. This approach is deeply integrated into our long-term investment philosophy. Our investment team routinely connects with management teams and boards of investee companies to deeply understand any material issues impacting their operations. The primary objective is to engage in meaningful dialogue to thoroughly understand the business opportunities, material issues, and risks.

Our engagement strategy extends beyond traditional voting mechanisms, allowing us to engage with companies to address and challenge their actions, strategies, and overall governance. This dialogue focuses on all areas relevant to the long-term economics of their business, including ESG-related factors that impact shareholder value.

Regarding ESG factors, FSI prioritises ESG issues that are material to the financial and operational performance of the companies, including issues of systemic influences, or 'PESTLE' issues, and other related items of public disclosures on ESG factors.

As part of our initial research process, our investment team actively explores key issues aligned with our Sustainability and Management Pillars, as detailed in our ESG & Sustainability Policy. This engagement typically addresses ESG-related challenges, including Climate Change, Modern Slavery, and governance structures, among others. These are in addition to our ESG-related exclusionary screens.

For ongoing engagement, FSI engages with companies identified as underperforming or failing to meet certain criteria. These criteria may include the publication of a modern slavery policy, the implementation of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, or adequate reporting of greenhouse gas (GHG) emissions. We aim to foster improvements in these areas to ensure that our investment companies maintain 'Quality Franchise' standards.

In some instances, FSI will directly engage with the boards of our investee companies before their Annual General Meetings (AGM) to address and discuss any concerns we might have concerning proxy items. If, despite our efforts, our concerns remain unaddressed or the responses from the company are unsatisfactory, we are prepared to exercise our voting rights against the specific proposals at stake.

Active Ownership Benefits

As a long-term shareholder, FSI has long recognised the important role that active ownership plays with respect to short-termism. The investment process places a material emphasis on ensuring a long-term approach is taken – a focus on short term returns can undermine long-term portfolio performance.

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The use of ESG integration to help draw long-term risks into the investment view is now widely accepted. Short-termism is a fundamental issue of many investors and has been central to why we have always adopted a long-term approach that encompasses ESG-thinking and active ownership principles.

We believe that there is a material relationship between a company' and its stakeholders, which may (negatively) impact economic returns through time as their conduct trickles through over time. These may include externalising costs onto others, exploiting common ESG assets (and the greater harm to society), securing favourable regulation or exploiting loopholes, etc.

Share Voting

Executing the voting rights attached to shares FSI controls in listed companies is something we regard as being an integral element of active ownership. Share voting is an important tool for engaging with companies. A vote is a visible and concrete expression of what may have been expressed in private discussion with the company's Chair or Board, particularly in relation to a range of governance issues, including board composition and executive remuneration.

Voting is an effective way for FSI and other investors to publicly express their views on what a company is doing right and what a company needs to improve. At FSI, our policy is to vote on resolutions that we determine could materially affect our shareholders. Our voting process includes an extensive review of third-party research, detailed internal analysis, and direct engagement with company management. We are committed to transparency, ensuring our viewpoints and concerns are communicated throughout this process.

FSI may choose to vote on resolutions related to environmental or social responsibility on a case-by case basis, recognising their potential impact on shareholder value. We consistently vote on all governance matters for our clients and transparently report our voting history. Although our standing instructions are to vote with management, we will vote against management proposals if we believe they could restrict the full potential of our client's capital.

In terms of conflicts of interest, FSI ascertains whether there exists a conflict of interest between FSI and its clients concerning the proxy in question. This review process involves, but is not limited to, investigating whether FSI or any of its affiliates has a relationship with the company to which the proxy pertains, beyond merely managing investments in that company on behalf of clients. Should a conflict of interest be identified and considered significant, FSI will take appropriate measures to address the conflict.

Escalation & Collaboration

At FSI, our stewardship policy includes clear escalation procedures to address situations where initial engagement efforts with investee companies do not achieve the desired outcomes. In line with the PRI, these procedures are designed to intensify our efforts progressively.

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FSI believes engaging in constructive dialogue with our portfolio companies is more effective than excluding them from our investment universe. Should concerns raised with these companies' executive and non-executive representatives remain unresolved over time, we will take decisive action by reducing or eliminating our exposure to the relevant company.

In certain situations, our escalation strategies may include collaborating with other investors for joint engagement efforts or publicly engaging through open letters. However, such strategies are seldom employed, as our investment philosophy is centred on identifying high-quality companies. This approach underscores our commitment to active stewardship and responsible investment practices.

Appendices