



## **Active Ownership Policy**

## TABLE OF CONTENTS

|             |  |          |
|-------------|--|----------|
| <b>I.</b>   | <b>KEY DEFINITIONS .....</b>                         | <b>3</b> |
| <b>II.</b>  | <b>PURPOSE.....</b>                                  | <b>3</b> |
| 2.1.        | Relevant codes, principles, and best practices ..... | 3        |
| <b>III.</b> | <b>SCOPE AND TARGET POPULATION .....</b>             | <b>4</b> |
| <b>IV.</b>  | <b>POLICY PROVISIONS.....</b>                        | <b>4</b> |
| 4.1.        | Engagement.....                                      | 4        |
| 4.1.1.      | Engagement principles .....                          | 4        |
| 4.1.2.      | Engagement priorities .....                          | 5        |
| 4.2.        | Proxy voting.....                                    | 7        |
| 4.2.1.      | Voting principles.....                               | 7        |
| 4.2.2.      | Voting priorities.....                               | 7        |
| 4.3.        | Transparency.....                                    | 10       |
| 4.4.        | Exclusion approach.....                              | 10       |
| 4.5.        | Managing conflicts of interest.....                  | 12       |

## I. KEY DEFINITIONS

- **Active ownership** – Represents actively exercising one’s rights as the shareholder of a company, particularly active engagement with management, voting at Annual General Meetings (AGMs), and discussion on both financial and non-financial environmental, social, and governance (ESG) factors.
- **Engagement** – The act of undertaking constructive dialogue with another entity with a view to improve environmental, social, and governance (ESG) practises.
- **Exclusion** – The act of barring an entity’s securities from being purchased for a portfolio due to business activities that are deemed unethical, harmful to society, or in breach of laws or regulations.
- **Sustainability risk** – An environmental, social or governance (ESG) event or condition that, if it occurs, could cause a negative material impact on the value of the investment.
- **Sustainable investing** – An investment philosophy. It posits that material environmental, social, and governance (ESG) factors will influence investment returns.
- **Voting** – Shareholders (typically) receive voting rights to be cast at annual or extraordinary general meetings on a range of strategic and environmental, social, and governance (ESG) matters.

## II. PURPOSE

At Puilaecto, sustainability is at the heart of our business and drives our investment philosophy. Active ownership is a fundamental part of our investment process.

We believe we can create better outcomes for our clients by actively engaging when we invest. Our investment policy emphasises our ability to create positive change by being active owners, which we believe to be vital to improving long-term investment returns for our clients. Actively exercising the influence we have as an investor and investment manager is consistent with both the fiduciary duties we have for our clients and our objective to be a sustainable company.

Active ownership involves monitoring the investments we make, identifying environmental, social and governance (ESG) issues, strategic problems, or opportunities for improvement, engaging with management teams or investment managers, voting at general meetings, and other efforts to encourage positive change for the long-term benefit of our clients and the world.

Puilaecto regards exclusions as a last resort, when active ownership has proven unsuccessful, or is infeasible, and further investment would be incompatible with our principles and the best interests of our clients.

Since we also invest client assets with other asset managers, we hold them to the same high standards regarding active ownership, and we engage with those managers to ensure that they are active owners on behalf of our clients.

### 2.1. Relevant codes, principles, and best practices

Active ownership is one of the six [Principles for Responsible Investment \(PRI\)](#) of which Quintet, mother company of Puilaecto is a signatory. Principle Two states “We will be active owners and incorporate ESG issues into our ownership policies and practices,” a principle we endorse.

Puilaecto's active ownership policy also draws to a large extent on globally recognised best practices and international governance frameworks and principles, such as the International Corporate Governance Network (ICGN) statement on Global Governance Principles, United Nations Global Compact and United Nations Guiding Principles on Business and Human Rights.

To implement the policy, Puilaecto and its service providers use guidelines which consider geographical differences in regulations and practices.

### III. SCOPE AND TARGET POPULATION

Our active ownership policy applies to our direct corporate investments in both equity and debt securities. This policy applies to:

- Discretionary Portfolio Management (assets managed for end-clients on a discretionary basis, often termed Investment Management);
- Advisory (advice on assets of clients who ultimately decide themselves on their investments);
- Asset Management (assets managed through Puilaecto's mutual funds);
- Puilaecto's ALM portfolios.

The document is not applicable to:

- Execution only assets;
- Custody services to external parties;
- Treasury and repurchase agreement (repo activities).

Voting is currently implemented for direct line equities on in-house funds managed by Brown Shipley, InsingerGilissen Asset Management, and held in Essential Portfolio Selection and Rivertree funds. The principles of active ownership apply to all investments, and Puilaecto will expand its active ownership efforts to other investments as practical and feasible.

### IV. POLICY PROVISIONS

#### 4.1. Engagement

##### 4.1.1. Engagement principles

The primary focus of Puilaecto's engagement is to address companies' key risks, challenges, and opportunities, covering environmental, social, governance, strategy, risk and communication matters. Our ultimate objective is to create value for investors, the company, and people and the planet.

Since Puilaecto represents a diverse group of clients with diverse holdings across the investment universe, we invest in a wide range of companies. As many of these companies are large, our direct investments may be small relative to the size of the firm. To be effective in engaging with these companies, we believe that collaborative engagement is likely to

achieve better results than efforts we might undertake on our own. We have therefore hired specialised external service providers to conduct engagement and voting on our behalf. In cases where collaborative engagement is not practical, we may undertake direct engagement ourselves with the companies we invest in.

Puilaecto has instructed its engagement partner to give special attention to companies that violate the principles of the UN Global Compact, or that have experienced significant ESG controversies. The engagement priorities for 2021 continue to be focused on the most material drivers of long-term value, with four priority themes: climate change, human and labour rights, human capital management and board effectiveness. Engagement priorities are reviewed annually, and we provide our insights and priorities as part of the priority-setting process with our service provider.

Climate change is an ongoing priority. Puilaecto is a member of [Climate Action 100+](#), a collaborative investor engagement initiative that seeks to ensure that the world's largest corporate greenhouse gas (GHG) emitters take action to reduce GHG emissions. We believe this is a logical step to protect our planet, as we recognise the importance of climate risk for our investments. Investors participating in Climate Action 100+ engage the world's largest 100 "systemically important emitters" and 60 other companies that have been identified as being key to the transition to a net zero emissions economy.

Puilaecto allocates a significant portion of its client's assets to external managers. In addition to engagement for direct lines, Puilaecto engages with external fund managers. Active ownership to create sustainable investor value is important for all investments, and we incorporate this conviction into the selection and monitoring of external managers. We also engage with these managers to communicate our beliefs and to understand theirs, and for insight into their active ownership policy and practice.

#### 4.1.2. Engagement priorities

Puilaecto has instructed its engagement partner to engage on its behalf. The engagement priorities for 2021 will continue to focus on the most material drivers of long-term value, with a focus on four priority themes<sup>1</sup>:

- **Climate change:** With the UN COP 26 meeting in Glasgow postponed until November 2021, we will continue to focus on climate change as our number one priority, seeking to achieve robust net-zero corporate strategies. We will expand our focus beyond traditional energy intensive sectors such as energy supply and transportation by seeking Paris-aligned net-zero strategies at the providers of capital, focusing on the banks and encouraging the shift to sustainable food systems that avoid deforestation and protect biodiversity, among other factors. We will also seek to ensure sustainable approaches to carbon offsetting via natural carbon sinks and seek to advance shareholder scrutiny of climate transition plans, supported by robust benchmarking of their quality and performance to date and shareholder votes at relevant companies.
- **Human and labour rights:** As we continue to engage on this enduring priority theme, we will seek to ensure increased vigilance in the protection of human and labour rights during and following the coronavirus pandemic. The pandemic has exacerbated inequalities, increased the risks of unacceptable working conditions (i.e: modern slavery and low pay) and limiting access to fundamental needs like food and medicine (including effective coronavirus vaccines). We will further focus on digital rights, such as challenges to the right to data privacy and freedom of expression through the development of artificial intelligence. We will continue to

---

<sup>1</sup> Source: EOS at Federated Hermes.

promote corporate application of the “UN Guiding Principles (UNGPs) on business and Human Rights at 10” – the next decade of implementation of the UNGPs.

- **Human capital management:** The coronavirus pandemic has shone a light on how well employers treat and engage their workforce. In addition, the tragic death of George Floyd has re-energised the anti-racism movement in the US and around the world. In 2021, new areas of focus include asking for a strategy and action plan to close the ethnic pay gap and achieve proportionate ethnic representation at all levels. Advancing gender equality in company leadership, senior management and throughout organisations also remains critically important, with many companies still falling short of equal opportunity. It is also important for companies to establish a culture which promotes inclusion in all forms and ensures that no form of prejudice is allowed. Companies should also develop the desired culture and employee proposition to improve workforce loyalty and wellbeing in the post-pandemic environment.
- **Board effectiveness:** In 2021, to enhance the quality of board performance and corporate decision-making, we will focus on ensuring that boards make improvements to ethnic diversity that at least match the recent progress on gender diversity, with the goal to achieve representation reflective of the diversity of the stakeholders it aspires to serve. We will also ask boards to react to the lessons learned from the coronavirus pandemic, including the possibility for more internationally diverse board appointments, enabled by more effective remote working practices. We remain committed to improving a board’s “software”, relating to how it functions, in addition to its “hardware”, relating to its composition and structure.

In addition, following the pandemic, we will focus on companies putting in place a business purpose and sustainable business model:

- **In the near term – corporate response to the pandemic:** The pandemic has highlighted the critical interdependence of business with key stakeholders including government and employees, yet these are now at risk from the perceived need to achieve shorter-term financial returns. We will encourage and support companies to set a clear and meaningful business purpose, which helps guide strategy and identify the actions in the short term to deliver value over the long term. In parallel, following unprecedented government support for business via schemes such as furlough support and central bank intervention, we will urge companies to act responsibly in critical areas such as good employment practices, the payment of appropriate levels of corporate taxation and justifiable levels of executive remuneration.
- **In the longer term – avoiding the next crisis:** The pandemic has also highlighted the risks to business as human activity pushes towards and even beyond planetary boundaries. Therefore, in addition to tackling the climate crisis, we now expect companies to put in place strategies to achieve a net-positive impact on biodiversity, eliminate deforestation and avoid contributing to the development of antibiotic-resistant “superbugs”. Finally, companies must put in place more comprehensive risk management systems to support long-term resilience to the risks of unforeseeable business impacts.

In addition to the above, we will also continue to build on our work in recent years in fast-growing areas of concern including plastics, the governance and ethics of data management and artificial intelligence, sustainable land use and biodiversity and fast fashion. These present a full range of engagement priorities which we believe continue to advance

our clients and their beneficiaries towards our shared goal of delivering more resilient long-term returns on investment and better, more sustainable outcomes for society.

## 4.2. Proxy voting

### 4.2.1. Voting principles

The primary focus of Puilaecto's voting decisions is good governance of the organisation, including the management of material environment and social risks. Governance structures that drive performance, create shareholder value and maintain a proper tone at the top are key to mitigating risk and building long-term shareholder value. Boards that work to protect and enhance the best interests of shareholders are independent, diverse, have a record of positive performance, and members with a breadth and depth of relevant knowledge and experience.

Our voting policy, which draws upon the expertise of our external service provider, emphasises governance, environmental, and social matters. We hire a proxy voting provider to provide research and technically implement voting. The Active Ownership Group reviews in detail voting when the investment is large or there is an increased level of controversy, or on request from members of our investment team, as further explained in **Error! Reference source not found.**

### 4.2.2. Voting priorities

#### I. Composition, independence, and accountability of the board

The composition of boards should aim at generating objective decision-making to deliver sustainable value to shareholders and other stakeholders of the corporation. The board should act on an informed basis and in the best long-term interests of the company with good faith, care and diligence, for the benefit of all shareholders and key stakeholders.

Puilaecto believes that boards should work to protect and enhance the best interests of shareholders and key stakeholders. To exercise proper governance, boards should be independent, have directors with diverse backgrounds and perspectives, have a record of positive performance and have members with a breadth and depth of relevant experience. Board composition should consider the expertise necessary to understand and address emerging risks facing the company and the necessary skills and experience should be present on the board and in its committees.

Our voting services provider has codified their approach to reviewing how boards are overseeing environmental and social issues. In instances where it is clear that a company has not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, we may vote against members of the board who are responsible for the oversight of environmental and social risks.

We notably consider in voting decisions the tenure of individual board members, the average tenure of the board, male-female ratio, number of boards or executive positions held by the member, independence and relevant experience or expertise. We support commitment to establishing broad sustainable business practices and review on the disclosure of ESG risk related issues.

In line with our ESG policy, we vote against directors (non-executive) serving more than five boards or voting against executive directors serving more than two boards. We vote against the male members of the nominating committee when board is comprised of fewer than 30% female directors with large-cap companies and not at least one female in mid-/small-cap companies.

## **II. Disclosure and transparency**

Boards should oversee timely, relevant, and high-quality company disclosures for investors and other stakeholders relating to financial statements, strategic and operational performance, corporate governance and material environmental and social risks.

Puilaecto believes that the auditor's role is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Because of the importance of the role of the auditor, rotating auditors is an important safeguard of the independence of the auditor. In line with our ESG policy, we vote against auditor ratification proposals in instances where a company's auditor has not changed for 20 or more years.

## **III. Long-term sustainable value creation**

Puilaecto expects companies to understand the governance, environmental and social risks they face as well as the positive and negative impacts their business decisions have on stakeholders. Furthermore, Puilaecto expects companies to be transparent to its shareholders and key stakeholders about what these risks and impacts are, and how they are being managed. In addition, boards should provide adequate oversight of ESG issues and be prepared to discuss their long-term plans for sustainable value creation with investors.

When considered material to the business or its stakeholders, Puilaecto generally support environmental and social shareholder proposals aimed at enhancing a company's ESG policies and performance or increasing a company's reporting and disclosures with respect to such issues.

## **IV. Executive compensation and alignment with long-term interests of shareholders and key stakeholders**

Executive compensation structures should be designed to effectively align the interests of the CEO and executives with those of the company, its shareholders and key stakeholders to help ensure long-term performance and sustainable value creation. Compensation programs should not restrict the company's ability to attract and retain executives and should also consider best practices in the relevant market.

Puilaecto believes that to ensure alignment of executive and shareholder interests, executive compensation should be underpinned by relevant and objective Key Performance Indicators (KPIs) related to areas that are material to the company's long performance and sustainable value creation, which includes non-financial targets. Furthermore, executive compensation programs should be disclosed to shareholders in a transparent way and be subject to shareholder approval.

Given the complexity of most companies' compensation programs, Puilaecto believes that compensation needs to be reviewed on a case-by-case basis, recognising that each company must be examined in the context of industry, size, maturity, performance, financial condition, its historic pay for performance practices and other relevant internal or external factors.

In line with our ESG policy, we support inclusion sustainability metrics in executive compensation plans. We encourage annual advisory compensation votes. We vote against say-on-pay proposals in case of potential severe disconnect between pay and performance, and where sustainability is not an explicit consideration for companies when awarding executive compensation and we have concerns regarding the pay and performance link.

## **V. Rights of shareholders**

The rights of all shareholders should be equal and adequately protected. Fundamental to this protection is ensuring that shareholder voting rights are directly linked to the shareholder's economic stake, and that minority shareholders have equal voting rights on key decisions or transactions which affect their interest in the company.

Puilaecto is an advocate of increased shareholder participation and access to a company and its board of directors. Processes and procedures for general meetings of shareholders should allow for equal treatment of all shareholders. Companies should avoid creating unnecessary hurdles for investors to cast their vote in a timely and cost-effective manner.

Puilaecto generally support initiatives that seek to enhance shareholder rights, such as the introduction of majority voting to elect directors, the adoption and amendment of proxy access bylaws, the elimination/reduction of supermajority provisions, the submission of shareholder rights' plans to a shareholder vote, and the principle of one share, one vote.

## **VI. Shareholder proposals**

Puilaecto supports shareholder proposals that aim to enhance and protect shareholder rights and that seek to adopt more sustainable practices and enhance transparency on current practices.

When voting on environmental proposals, we take into account the impact companies have on the environment, as well as the risks they may face by not adopting environmentally responsible policies. We believe systematic risks, such as those related to climate change, are issues that companies need to manage with high priority. We generally support proposals seeking to adapt more ambitious environment objectives and improve disclosure about company practices that impact the environment.

When analysing social proposals, we consider the communities and broader constituents in the areas in which companies do business. We generally support proposals requesting that companies provide greater disclosure about their impact on local stakeholders, as well as employee and human rights. We support proposals seeking increased disclosure on public health and safety issues, review of political spending or lobbying, reporting on compliance with international human rights standards and transparency on various social issues.

## **VII. Examples of ESG-oriented voting rules for shareholder proposals:**

### Compensation

- Vote in favour of proposals to tie executive compensation to E,S and G performance measures, health and safety regulations, non-discrimination laws and human rights standards.
- Support most governance-related shareholder proposals all environmental and social shareholder proposals aimed at enhancing a company's policies and performance or increasing a company's disclosures with respect to such issues.
- Vote for proposals requesting disclosure on gender pay inequity.

### Corporate Governance

- Vote in favour of initiatives introducing majority voting, electing directors etc.
- Support proposals aimed at increasing the diversity of boards or management as well as those requesting additional information concerning workforce diversity and the adoption of more inclusive non discrimination policies.

#### Environment

- Support proposals requesting companies develop greenhouse gas emissions reduction goals, comprehensive recycling programs, and other proactive means to mitigate a company's environmental footprint.
- Support proposals to disclose or adopt certain policies related to mitigating climate change related risks.
- Support proposals requesting that a company consider energy efficiency and renewable energy sources in its project development and overall business strategy.

#### Labour/Human Rights

- Generally supporting enhancing the rights of workers, considering communities.
- Support the adoption of codes of conduct relating to labour standards, human rights conventions, and corporate responsibility at large.
- Reviewing performance and oversight of certain directors when a company is found to have violated international human rights standards.

#### Health & Safety

- Vote in favour of proposals seeking increased disclosure regarding public health and safety issues.
- Support proposals calling for the labelling of Genetically Modified Organisms (GMO's), the prohibition of tobacco sales to minors.

#### Business Ethics

- Vote for proposals seeking to increase disclosure of a company's business ethics and code of conduct, as well as of its activities that relate to social welfare.
- Vote in favour of proposals to develop sustainable business practices (incl. animal welfare policies, human rights policies, fair lending policies).
- Supporting reporting and reviewing a company's political and charitable spending and lobbying practices.

#### Mergers, acquisitions and contested Meetings

- Support shareholders proposals asking the company to consider the effects of transactions on company's stakeholders.

### 4.3. Transparency

Puilaecto aims to publish an active ownership report at least twice a year. This report covers our voting and engagement activities.

As part of its ongoing commitment to transparency, Puilaecto discloses all its voting decisions [online](#). Voting decisions are available as soon as possible after meetings take place, and our rationale is included where appropriate. All the votes we have cast over the past 12 months are available.

### 4.4. Exclusion approach

When an issuer operates in violation of Puilaecto's defined exclusion criteria and either the desired changes related to resolving the violation cannot be achieved given the nature of the violation, or the issuer has not resolved the violation with the timeframe set by Puilaecto. The exclusion criteria for direct investments are categorised as follows:

- (i) **Involvement in Controversial Weapons:** Equities and bonds issued by companies involved in controversial weapons and their affiliates (subsidiaries or parent company) are excluded. A strategic investment giving more than a 10% ownership in a company involved in controversial weapons is considered as an involvement.

Controversial Weapons are weapons that can have a disproportionate and indiscriminate impact on the civilian population. The following weapon types are considered controversial by Puilaecto: anti-personnel landmines, biological weapons, chemical weapons, cluster munitions, depleted uranium ammunitions, and white phosphorus weapons. In addition, involvement by corporate issuers in nuclear weapons related to countries that are not a signatory to the Non-Proliferation Treaty (NPT) is considered to be a violation of Puilaecto's exclusion criteria. Please see an overview of Controversial weapons below.

| Weapon type              | Conventions/treaties   |
|--------------------------|--|
| Anti-personnel mines     | Ottawa Treaty  |
| Biological weapons       | Biological and Toxin Weapons Convention (BTWC) and Chemical Weapons Convention (CWC) |
| Chemical weapons         | Biological and Toxin Weapons Convention (BTWC) and Chemical Weapons Convention (CWC) |
| Cluster munitions        | Convention on Cluster Munitions (CCM)  |
| Depleted uranium weapons | Currently no convention or legal framework forbidding or regulating depleted uranium |
| Nuclear weapons          | Non-Proliferation Treaty (NPT), allowing 5 countries to have such weapons            |
| White phosphorus weapons | Currently no convention or legal framework forbidding or regulating white phosphorus |

- (ii) **Controversial conduct:** Equities and bonds issued by companies non-compliant with the principles of the UN Global Compact (UNGC) are excluded after a period of 3 years if there is no improvement.

Puilaecto uses the United Nations Global Compact principles as a reference framework to assess the conduct of corporate issuers. Puilaecto expects companies it invests in to operate in accordance with international law and regulations.

- (iii) **Involvement in Thermal coal:** Equities and bonds issued by companies deriving more than 10% of revenues either from thermal coal extraction or thermal coal power generation are excluded.

Thermal coal, is widely used as a principle means of generating electricity in much of the world. The International Energy Agency (IEA) found that CO<sub>2</sub> emitted from coal combustion was responsible for over 0.3°C of the 1°C increase in global average annual surface temperatures above pre-industrial levels. This makes coal the single largest source of global temperature increase. Thermal coal is inherently in contradiction with the ambitions of the Paris Agreement. Facing this reality, divestment efforts are spreading globally. Earlier in 2021, the world's seven largest advanced economies (G7) committed to stop international financing of coal projects that emit carbon by the end of this year.

Excluding involvement in thermal-coal is in line with our ambition to work to support the Paris Agreement ambitions and to reduce the economic risk in portfolios as coal becomes increasingly uncompetitive as a fuel for power generation.

- (iv) **Embargoed countries:** Bonds issued by countries under an EU arms-embargo and, equities and bonds of companies owned by these countries are excluded.

Since Puilaecto already adheres to regulations concerning various types of sanctions, these regulations are assumed to be co-equal with the exclusion criteria. As such, any explicit criteria in this Policy related to sovereign or sovereign-related issuers must be understood as being in addition to all applicable regulations.

As the exclusion criteria are applicable to equities and bonds, more specific guidelines may be developed to ensure that all investment instruments are suitably covered, such as structured products and derivatives.

The divestment process and the guidelines for evaluation the exclusion criteria are explained respectively in **Error! Reference source not found.** and **Error! Reference source not found.**

#### **4.5. Managing conflicts of interest**

Puilaecto exercises voting rights solely in the general interest of its clients, irrespective of its own interests, and in compliance with its guiding principles.

If exercising its voting right for a given company exposes Puilaecto to a significant conflict of interest, the Active Ownership Group will refer the matter to Puilaecto's Head of Compliance, who will decide the appropriate measures, including the decision to participate in said company's general meetings.