

Active Ownership Policy

As asset manager, we at Kredietrust Luxembourg S.A. have adopted a responsible investment policy of which active ownership is an integral part. Our responsible investment policy emphasizes our ability to create positive change by being active owners, which we believe to be consistent with improving long-term investment returns for our clients. Engagement with the companies in which we invest is a vital part of this. Moreover, active ownership is one of the six Principles for Responsible Investment [<https://www.unpri.org/>] of which we are a signatory.

All of our investment activities are undertaken with a focus on the long-term interests of our clients.

This is the focus of our investment policy, and our active ownership policy is fully aligned with these beliefs.

Since we represent 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 holdings may be small relative to the size of the firm. To be effective in engaging with these companies, we believe that collective 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 collective engagement or voting is not practical, we may undertake direct engagement ourselves.

Governance, Implementation, Scope

The Management Committee of KTL is responsible for our investment activities, including our responsible investment activities, of which active ownership is part. We have established a Responsible Investment Committee which implements our Responsible Investment Policy. With respect to active ownership, this policy includes:

- Providing input on our priorities to our voting and engagement service providers,
- Determining whether our priorities and principles require specific engagement or voting activities on our behalf,
- Monitoring and reporting on the voting and engagement activities conducted on our behalf, and
- Reviewing periodically the selection of external voting and engagement providers.

KTL's Responsible Investment Policy applies to the Rivertree and Essential Portfolio Selection investment fund range only.

We will engage on behalf of both equity and fixed income securities held in investment funds we manage or in client accounts we manage or actively advise. Voting is of course restricted to equity securities.

Key engagement priorities

The full range of issues on which our service providers may engage includes many different topics. This recognizes the increasing breadth of sustainability issues now material to the companies in which we invest. As we work with our service provider, it is important that our engagement focuses on the most critical areas, and we will work actively with our engagement provider in determining those priorities. For 2019, the focus includes the following areas:

- **Board composition:** A company's board is appointed to set strategy and oversee the company's executive management and operations. There is increasing evidence that good corporate governance is a driver of enhanced business performance, leading to improved outcomes for relevant stakeholders and better shareholder returns. A critical focus of engagement should be to ensure that the right board is in place and it has the right structures and process, such as board committees and regular evaluation, to carry out its oversight role properly.
- **Climate change:** Our engagement service provider is an active supporter of Climate Action 100+, the collaborative engagement initiative representing over \$32 trillion of assets, and serves as lead or co-lead engager for 27 companies. Climate change engagement has traditionally focused significant engagement resource on the fossil fuel 'supply' side businesses of oil & gas and coal mining, together with utilities. In 2019, the engagement activities will extend to other sectors which drive high demand for fossil fuels and which bear potentially significant transition risk. These include the automotive sector, energy intensive industrials such as steel, cement, petrochemicals and industrial smelting as well as financial services, where bank lending policies arguably may provide a stronger point of leverage on the extent of access to finance by carbon intensive businesses than equity markets themselves.
- **Human rights:** The ability and commitment to respect and if necessary remedy salient human rights issues, reflects the strength of a company's wider corporate culture and enterprise risk management including reputational risk, which affect the creation and preservation of long-term value. For many companies, human rights issues reside less in their own operations and more in the supply chain, or potentially in use of products or services. Engaging to establish best practices in supply chain human rights risk management will be a special focus using a combination of 'top-down' policy led measures that require suppliers to guarantee adherence to standards, together with 'bottom-up' due diligence using data from the supply chain itself.
- **Human Capital Management:** In service and knowledge-based economies, innovation and employee collaboration are critical to success. Yet, good human capital management is difficult to assess, which is exacerbated by a lack of data for investors and of standardized reporting. Areas of focus will include meaningful company specific human capital-related metrics to enable better comparison and engagement by investors, increased workforce diversity beyond the board and executive teams, and identifying best practices.

Key voting priorities

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

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.

Reporting

As signatory of the Principles for Responsible Investment, we are committed to reporting on our active ownership policies and practices. In addition to our annual PRI Report, we will publish annually an

overview of our engagement and voting activities. Our reporting currently consists of this policy, and will be updated periodically, prior to our first full active ownership report.

Conflicts of interest

In general, KTL exercises voting rights solely in the general interest of its fund shareholders, irrespective of its own interests, and in compliance with its guiding principles. KTL has introduced a procedure to anticipate, identify and manage potential conflicts of interest.

If exercising its voting right for a given company exposes KTL to a significant conflict of interest, the team responsible for the “exercise of voting rights” of KTL will refer the matter to the Head of Compliance, who will decide the appropriate measures, including the decision to participate in said company's general meetings.