eastspring investments

A member of Prudential plc (UK)

EQUITY TEAM STEWARDSHIP POLICY

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INTRODUCTION

As a fiduciary to our clients, Eastspring Investments always seeks to act in our clients' best interests and treat each client fairly. This is interpreted as pursuing the best financial interest of the client, and this principle underlies all aspects of our investment process.

We recognise the importance of accountability to our clients for the stewardship of their assets. We aim to generate long-term capital growth on the assets investors entrust to us by pursuing an active investment policy through portfolio management decisions.

We believe that the quality of corporate governance practices, and how companies manage the environmental and social aspects of their operations, can be material to delivering superior longer-term shareholder value. Stewardship helps to promote high standards of corporate governance which contributes to sustainable value creation. Stewardship contributes to preserving and enhancing long-term value as part of a responsible investment approach. This includes the consideration of wider ethical, environmental and social factors as core components of fiduciary duty. Stewardship can enhance overall financial market stability and economic growth.

Our stewardship policy provides guidance that enables our investment teams to explain how they incorporate their stewardship commitments into investment processes.

STEWARDSHIP PRINCIPLES

As a member of International Corporate Governance Network (ICGN) our stewardship approach is aligned with the ICGN Global Stewardship Principles and ICGN Global Governance Principles (See Appendix for a summary of these Principles).

STEWARDSHIP CODES

Eastspring Investments is supportive in the application of Stewardship Codes in markets where we operate.

Where applicable, we have developed policies to inform how we fulfill our stewardship responsibilities in respect of a particular Stewardship Code.

ENGAGEMENT

Engagement is core to our Stewardship responsibilities. We aim to encourage business and management practices that support sustainable financial performance through constructive engagement based on our in-depth knowledge of the companies and their business environment.

We apply a holistic approach to identifying material risks—including Environmental, Social, and Governance (ESG) issues—to the sustainable earnings of a company. Factors that impact longer term sustainable earnings will differ across companies and are incorporated into our fundamental analysis and decision-making process when we believe they could have a material impact on a company's valuation and financial performance.

Value realisation is encouraged via ongoing engagement with the company regarding material issues. The nature and level of engagement will therefore vary from company to company, based on materiality of risks to sustainable earnings.

A patient timeframe can improve the probability of outcomes. We believe our focused, valuation-driven approach is clearly aligned with stewardship activities, including ongoing company engagement, for shareholder value realisation over the longer term.

We place a high level of importance on an ongoing dialogue with investee companies primarily based on what we believe will maximise shareholder value as long-term investors.

We believe investment professionals are in the best position to evaluate all material risks to sustainable earnings of a company and issues that may have an impact on long-term shareholder value. Engagement activities are integral to the investment process and therefore the responsibility of the equity team, rather than being delegated to ESG or stewardship specialists.

Where appropriate, we will play an active role in seeking to effect changes to maximise shareholder value.

ENGAGEMENT AND CLIMATE CHANGE

Our fundamental due diligence considers all material risks to longer drivers of sustainable earnings. We do not apply a prescriptive or mechanistic approach to determining material risks, including potential impacts from climate change.

In the context of climate change impacts, we take this into consideration on a stock by stock basis, based on our assessment of materiality. We believe transition and physical risks from climate change may have a meaningful impact to the sustainability of businesses that do not take strategic measures to address them. We engage investee companies where we observe the potential for a material impact.

We engage with company management to determine their preparedness and strategic response to potential impacts from climate change risks, where we see them as material to the trend drivers of sustainable returns. We will incorporate this into our qualitative assessment which contributes to the conviction (or confidence) in our trend valuation assumptions.

As part of our commitment to engagement, we have joined the Climate Action 100+ initiative, which calls on companies to improve governance on climate change, curb emissions, and strengthen climate-related financial disclosures.

We currently subscribe to MSCI ESG Research and utilise tools in order to generate carbon portfolio analytics. The MSCI Carbon Portfolio Analytics tool analyses a portfolio of securities in terms of the carbon emissions, fossil fuel reserves, and other carbon related characteristics of the entities that issue those securities.

We are committed to an ongoing and long-term process of improving our approach to integrating ESG into our investment processes. We expect the application of tools in our processes and client reporting are aspects that may evolve over time to reflect changes in business practices, structures, technology, and the law.

ENGAGEMENT RECORDS

We maintain summary records of company engagement relating material issues, which may be available to clients upon request.

We encourage direct client dialogues, using case studies which demonstrate our process in action and ultimately, how we execute our fiduciary duty.

ENGAGEMENT ESCALATION

Judgement is applied in all company engagements and the strategy for escalation will be determined by the specific circumstances of each company. We do not apply a prescriptive or mechanistic approach to engagement escalation.

Where we have concerns around the company's progress, our ongoing engagement will include direct dialogues between Portfolio Managers and the appropriate corporate representatives or non-executive directors. The following are typical engagement escalation measures we may choose to employ.

We may express our concerns to company management collectively with other investors. We are active members of collaborative organisations. From time to time, we may participate in collaborative engagement initiatives where we believe it to be in our client's best interests to do so (See Appendix for a list of collaborative organisations of which we are a member).

We may make a public statement about our concerns, where we believe it to be in our client's best interests to do so.

Additionally, we may submit shareholder resolutions in order to address our concerns.

Our active proxy voting decisions are used as a signal to companies around our expectations. By exercising our votes, we seek both to add value and to protect our interests as shareholders. There are Equity team proxy voting policies in place to govern the circumstances where we vote against management.

The equity team continuously monitors for material changes, including ESG-related matters, which may impact our trend valuation assumptions for investee companies. Our ongoing dialogue with company management forms part of an assessment of company management's willingness and ability to address longer term strategic issues. Where there is evidence to suggest that the material risks to sustainable returns have meaningfully changed, our valuation assumptions will be reviewed. Where the identified material risks sufficiently impact our conviction for our longer-term trend assumptions, in the context of valuation support, we may choose to exit from the investment.

PROXY VOTING

An active and informed voting policy is an integral part of our investment philosophy and forms a core part of our approach to engagement. Eastspring Investments follows a principles-based approach. All votes are considered in the context of the principles as set out in our investment teams' Proxy Voting Policies.

As a general policy we are supportive of the management of the companies in which we invest. However, when companies consistently fail to achieve our reasonable expectations, we will actively promote changes. These changes might range from the formulation of a new strategy to the appointment of new management or non-executive directors.

Voting should never be divorced from the underlying investment activity. By exercising our votes, we seek both to add value and to protect our clients' interests as shareholders.

ESG INTEGRATION

ESG considerations are integral to our investment stewardship activities. We apply a holistic approach by incorporating material risks, including ESG issues, as part of our investment decision making processes.

We believe that the quality of corporate governance practices, and how companies manage the environmental and social aspects of their operations, can be material to delivering superior longer-term shareholder value.

By taking ESG issues into account, we can meet our clients' financial expectations, serve their other long-term interests and meet the expectations of society.

We focus on exploiting significant price episodes, where changes to the market's risk perceptions and expectations have caused a meaningful dislocation between the price and long-term trend valuation of a company.

ESG issues and their potential impact differ across companies and are incorporated into our fundamental analysis and decision-making process when we believe they could have a material impact on a company's valuation and financial performance. We have adopted tools that assist in the efficient identification of ESG issues related to the companies we research.

In building our fundamental assumptions that underpin the valuation for a company, we apply a holistic approach to identifying material risks—including ESG issues—to the sustainable earnings of a company. We rely on the robustness of our proprietary fundamental research process and apply our judgment to assess material factors that impact sustainable earnings.

We require significant valuation support to compensate for material risks to longer-term sustainable earnings.

Implicit in our approach is that we do not screen out companies solely on the basis of perceived problematic ESG issues. Although this approach does not prohibit us from purchasing or holding a position due to an ESG issue, consideration of these issues is made part of the investment decision. A poor ESG performer may present an investment opportunity, where we can observe significant mis-pricing and also a willingness and ability for company management to address the material issues it may be facing amid a changing competitive environment.

Having identified potential risks to sustainable earnings, we may consider an investment where there is sufficient conviction in our fundamental assumptions and where we are more than compensated by valuation support.

APPENDIX

United Nations-supported Principles of Responsible Investing (PRI)

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

ICGN Global Stewardship Principles:

Principle 1: Internal governance: foundations of effective stewardship
Investors should keep under review their own governance practices to ensure consistency with the aims of national requirements and the ICGN Global Stewardship Principles and their ability to serve as fiduciary agents for their beneficiaries or clients.

Principles 2: Developing and implementing stewardship policies
Investors should commit to developing and implementing stewardship policies which outlines the scope of their responsible investment practices.

Principle 3: Monitoring and assessing investee companies
Investors should exercise diligence in monitoring companies held in investment portfolios and in assessing new companies for investment.

Principle 4: Engaging companies and investor collaboration
Investors should engage with investee companies with the aim of preserving or enhancing value on behalf of beneficiaries or clients and should be prepared to collaborate with other investors to communicate areas of concern.

Principle 5: Exercising voting rights
Investors with voting rights should seek to vote shares held and make informed and independent voting decisions, applying due care, diligence and judgement across their entire portfolio in the interests of beneficiaries or clients.

Principle 6: Promoting long-term value creation and integration of environmental, social and governance (ESG) factors
Investors should promote the long-term performance and sustainable success of companies and should integrate material environmental, social and governance (ESG) factors in stewardship activities.

Principle 7: Enhancing transparency, disclosure and reporting
Investors should publicly disclose their stewardship policies and activities and report to beneficiaries or clients on how they have been implemented so as to be fully accountable for the effective delivery of their duties.

ICGN Global Governance Principles:

Principle 1: Board role and responsibilities
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 shareholders, while having regard to relevant stakeholders, including creditors.

Principle 2: Leadership and independence
Board leadership calls for clarity and balance in board and executive roles and an integrity of process to protect the interests of minority investors and promote success of the company as a whole.

Principle 3: Composition and appointment
There should be a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making.

Principle 4: Corporate culture
The board should adopt high standards of business ethics, ensuring that its vision, mission and objectives are sound and demonstrative of its values. Codes of ethical conduct should be effectively communicated and integrated into the company's strategy and operations, including risk management systems and remuneration structures.

Principle 5: Risk oversight
The board should proactively oversee, review and approve the approach to risk management regularly or with any significant business change and satisfy itself that the approach is functioning effectively.

Principle 6: Remuneration
Remuneration should be designed to effectively align the interests of the CEO and executive officers with those of the company and its shareholders to help ensure long-term performance and sustainable value creation. The board should also ensure that aggregate remuneration is appropriately balanced with the needs to pay dividends to shareholders and retain capital for future investment.

Principle 7: Reporting and audit
Boards should oversee timely 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 factors. A robust audit practice is critical for necessary quality standards.

Principle 8: Shareholder rights
Rights of all shareholders should be equal and must be 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 voting rights on key decisions or transactions which affect their interest in the company.

Collaborative Organisations and Initiatives with respect to the Equity team:

- United Nations-supported Principles for Responsible Investment (PRI)
- International Corporate Governance Network (ICGN)
- Asian Corporate Governance Association (ACGA)
- Asian Investor Group for Climate Change (AIGCC)
- Climate Action 100+
- Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance
- Japan Stewardship Code
- Singapore Stewardship Principles

External Service Providers:

- MSCI ESG Research
- Institutional Shareholder Services