

**EDGBASTON INVESTMENT PARTNERS LLP**  
**STEWARDSHIP AND SHAREHOLDER ENGAGEMENT<sup>1</sup>**

Edgbaston Investment Partners LLP (“**Edgbaston**”) aims to provide strong investment returns combined with excellent client service and sees a considered approach to stewardship and shareholder engagement as an integral part of this. Edgbaston recognises the need to engage with the management and directors of its portfolio companies and to exercise its proxy voting rights with a view to enhancing its clients’ long-term investment values. These steps are both compatible with good corporate governance and provide the best operating environment for portfolio companies to cope with competitive commercial pressures.

With reference to the principles of the Financial Reporting Council’s 2012 version of the UK Stewardship Code<sup>2</sup> (the “**Stewardship Code**”), this document seeks to explain what Edgbaston expects from its portfolio companies and what those companies can expect in return from Edgbaston<sup>3</sup>.

**Principle 1 – An investment firm should publicly disclose its policy on how it will discharge its stewardship responsibilities.**

Edgbaston seeks to discharge its stewardship responsibilities by ensuring that the boards of portfolio companies are appropriately structured and function effectively, and by adhering to its Proxy Voting Policy (attached at Appendix 1) and Environmental, Social and Governance (“ESG”) Policy (attached at Appendix 2).

Edgbaston expects to see the following in a corporate board:

- Independence from management;
- Suitably qualified and diverse board members with a good understanding of the business risks and opportunities;
- A focus on the protection of shareholders’ rights, including treating all shareholders equally;
- Sufficient oversight, including an objective evaluation of management and ensuring their remuneration programmes align to shareholders’ long-term best interests;
- A commitment to ensuring the company earns an attractive return on the capital contributed by shareholders.

**Principle 2 – An investment firm should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

Edgbaston recognises the importance of identifying potential material conflicts and the need to have adequate systems and controls to avoid or mitigate their impact on clients. Edgbaston is a privately owned, independent

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<sup>1</sup> This document meets the requirements of an “engagement policy” under the amended EU Shareholders’ Rights Directive (“SRD II”).

<sup>2</sup> The Stewardship Code is a voluntary code which sets out a number of principles relating to engagement by investors with UK equity issuers. Edgbaston is not a signatory to the Stewardship Code. The firm specialises in long-only Asia Pacific ex-Japan equity investments and does not ordinarily invest in UK equities. Whilst Edgbaston generally supports the objectives that underlie the Stewardship Code, it does not consider it appropriate to commit to any code of practice relating to any individual jurisdiction. This position will be re-assessed in due course as part of a substantive update to this document.

<sup>3</sup> Edgbaston continues to closely follow market and regulatory developments on stewardship and environmental, social and governance (“ESG”) considerations more broadly. A substantive update to this document – most likely with specific reference to the 2020 version of the UK Stewardship Code – will follow in due course. For now, unless otherwise stated, references to the Stewardship Code in this document refer to the 2012 version.

partnership, which implements a single investment programme for its clients. As such, Edgbaston has specifically structured its business to ensure that its interests and the interests of its members and employees are aligned as closely as possible with those of its investors, for example, through ownership interests and remuneration policies. This reduces the conflicts of interest faced by Edgbaston, as compared to larger and more complex financial services firms.

Edgbaston maintains a log of the actual or potential conflicts of interest to which it may be subject. This includes key conflicts which may impact on the ability or motivation of its investment team to focus on governance issues for Edgbaston portfolio companies (for example, due to personal account dealing or outside business interests). Edgbaston has implemented robust controls and procedures in this respect which are described in its Compliance Manual and tested as part of its compliance and risk testing programme.

### **Principle 3 – An investment firm should monitor its investee companies.**

#### *Research Monitoring*

Edgbaston's investment approach is based on fundamental analysis, which involves building and maintaining a detailed knowledge of individual companies, including through meetings and calls, analysis of published company reports, announcements and circulars and broader internal and external research and data. As such, Edgbaston's ongoing monitoring of investee company strategy, operational, governance and management performance and capital allocation is integral to its investment process.

#### *Engagement and Voting Matters*

Ownership of shares brings with it important responsibilities, particularly the right to speak and vote on matters that can influence the way in which a business is conducted. Edgbaston adopts a positive engagement approach whereby it discusses issues with the management of the companies in which it invests or is considering investing on behalf of its clients. Edgbaston prefers to have one-on-one discussions with companies as it believes this enables an effective relationship with boards and management to be built. Edgbaston uses the information gathered during these meetings both to inform its investment decisions and also to encourage company management to improve procedures and policies. Edgbaston believes that this is the most effective way to effect positive change in standards of corporate social responsibility. Edgbaston monitors the effectiveness of its engagement with the managements and boards of investee companies. Its historic communications, and the success of any such communications, will play a part in its proxy voting decisions.

In accordance with applicable law and its internal document retention policies, Edgbaston maintains electronic records of material engagements, voting and other corporate governance and corporate responsibility activities, including the rationale for voting decisions.

### **Principle 4 – An investment firm should establish clear guidelines on when and how it will escalate its stewardship activities.**

As a general policy, Edgbaston's strong preference is to achieve its clients' objectives whilst supporting portfolio company management. However, on occasion, Edgbaston's views may differ from those of management and/or the Board and this may give rise to an escalation in engagement. Factors taken into account prior to escalation include an assessment of the materiality of the matter in dispute, the size of Edgbaston's shareholding and the ownership profile of the business in question. The specific response thereafter will always be determined on a case by case basis but may include the following:

- Formalising our view to the management and/or board in writing;
- Contacting the company's advisers and/or independent directors for a further exchange of views;
- Voting against the management recommendation on a given motion;
- Collaborating with other significant shareholders to determine whether they share Edgbaston's views or concerns (subject to the comments outlined at Principle 5 below);
- Attending an AGM / EGM in person;
- Introducing an AGM / EGM motion;
- Escalating concerns to the relevant stock exchange or regulator;
- Making a public statement (as a general policy, we do not favour using the media to help achieve our clients' objectives);
- Selling the stock.

**Principle 5 – An investment firm should be willing to act collectively with other investors where appropriate.**

Occasionally, an issue may arise where collaboration with other investors may help to create a better outcome for Edgbaston's clients. However, Edgbaston is mindful that it needs to maintain a balance between the time spent on such matters and the value it will generate for clients. The investment team will review proposals for collective engagement initiatives with Edgbaston's compliance group on a case by case basis with reference to the following criteria:

- The materiality of the issue;
- The ability to influence (i.e. the materiality of the shareholding);
- The ownership profile of the company under discussion.

In considering participation in collaborative engagement initiatives, Edgbaston will also take into account potential conflicts of interest, concert party rules and its policy on insider information.

**Principle 6 – An investment firm should have a clear policy on voting and disclosure of voting activity.**

Edgbaston's Proxy Voting Policy is attached to this document at Appendix 1.

**Principle 7 – An investment firm should report periodically on its stewardship and voting activities.**

Clients may receive a quarterly summary of Edgbaston's proxy voting activity by contacting [clients@edgbastonip.com](mailto:clients@edgbastonip.com). Save as provided by law or regulation, Edgbaston does not provide other third parties with information on how it has voted client proxies. In addition, this stewardship and shareholder engagement document is included on Edgbaston's website ([www.edgbastonip.com](http://www.edgbastonip.com)) and is updated periodically (typically, annually).

Questions on this document or on Edgbaston's approach to stewardship and shareholder engagement more generally should be directed to [compliance@edgbastonip.com](mailto:compliance@edgbastonip.com).

## APPENDIX 1

### PROXY VOTING POLICY

Edgbaston Investment Partners LLP (“**Edgbaston**”) considers it to be of paramount importance when assessing proxy voting responsibilities on behalf of its privately offered commingled funds (collectively defined as “**Clients**”) to recognise the fiduciary responsibility it assumes in acting as investment manager. Edgbaston also recognises the need to exercise its proxy voting obligations with a view to enhancing long-term investment values. Edgbaston believes that both are generally compatible with good corporate governance as they provide the best operating environment for each underlying portfolio company to cope with competitive commercial pressures. To help achieve its objectives, it is Edgbaston’s policy, subject to the considerations described below, to use its commercially reasonable efforts to vote proxies arising on all shares held on behalf of its Clients.

Standard issues typically arise at Annual General Meetings (“**AGMs**”) or Ordinary General Meetings (“**OGMs**”). Standard issues may include items of a routine nature such as the presentation of financial statements to shareholders, approval of routine executive compensation or incentive plans, approval of financial statements by shareholders, election of directors and approval of director’s fees, election of auditors and approval of audit fees, and declaration of dividends.

In certain markets, permission to waive pre-emptive rights are a standard resolution on AGM agendas. Edgbaston routinely votes against these. The varying levels of protection offered to minority shareholders in different countries often results in a lack of adequate disclosure in terms of parties involved, discounts given and the use of proceeds. Over time, waiving pre-emptive rights also dilutes minority shareholders’ stake in the business.

Material issues may arise at Extraordinary General Meetings (“**EGMs**”), Special General Meetings (“**SGMs**”), OGMs, or AGMs. Material issues may include items that relate to corporate governance matters; changes in a company’s country of incorporation; mergers and other corporate restructurings; anti-takeover provisions such as staggered boards, poison pills, or supermajority provisions; changes to capital structures including increases and decreases of capital and preferred stock issuance; material stock option, management compensation, or incentive plan issues; and social and corporate responsibility considerations. Edgbaston also considers standard issues to be material issues when it has knowledge that a potential conflict of interest with management is present. These situations can arise where a portfolio company’s US retirement plan assets are invested in an Edgbaston managed commingled fund, a portfolio company or one of its affiliates is also a brokerage counterparty to a Client’s security or foreign currency transaction, or where the person responsible for overseeing investments at a Unitholder that is invested in one of Edgbaston’s privately offered commingled funds is also a director or officer of a portfolio company that would materially benefit from any executive compensation or incentive scheme subject to shareholder vote. Please note, however, that Edgbaston may not be aware of the roles performed for portfolio companies by underlying investors holding units in Edgbaston’s privately offered commingled funds. Unitholders are requested to notify Edgbaston in writing of any known affiliations with publicly traded companies that could fall within Edgbaston’s investment universe. Unitholders are also requested to notify Edgbaston in writing if they are actively involved in the financial services industry or affiliated or employed by an investment bank, broker/dealer, custodian or asset management firm.

The Northern Trust Company (“**Northern Trust**”) acts as the custodian / depositary of Edgbaston’s privately offered commingled funds and holds all securities owned by these commingled funds for the benefit of the Unitholders. Northern Trust has outsourced certain of its proxy processing responsibilities to Broadridge, a

leading provider of proxy voting and corporate governance services. Broadridge principally provides Edgbaston with meeting notification and ballot delivery services, agenda summaries and vote instruction processing services. All of these services are delivered to Edgbaston via an interface provided by Glass Lewis Europe Limited (“Glass Lewis”), an independent provider of global governance services. In addition to the basic services provided by Broadridge, Glass Lewis provides Edgbaston with more bespoke proxy voting services including detailed agenda content and original source documents, background research, translation services, power of attorney maintenance and recordkeeping and custom reports. Meeting notifications are provided according to an established service level agreement in place between Northern Trust and Broadridge and one in place between Northern Trust and Edgbaston. Edgbaston does not outsource any part of its proxy voting *decision making* process to Broadridge, Glass Lewis or Northern Trust.

Following receipt of proxy voting materials from Broadridge and Glass Lewis, Edgbaston’s investment operations team prepares a package of material for review by a member of the Edgbaston’s Portfolio Implementation Committee (“PIC”). The package of material includes details of the resolutions published by the company, background research, any translations (if the documents have not been published in English), and the deadline for the response. One PIC member is able to decide on standard items but material items and votes against management recommendations require two PIC members to approve the course of action. Once the action is approved, Edgbaston’s investment operations team processes and verifies the proxy vote electronically using the Glass Lewis proprietary system.

In certain circumstances, Edgbaston may be unable to vote a specific proxy including (but not limited to) when Northern Trust or Broadridge does not provide a voting service in a given market, because Northern Trust’s agent, in error, does not process a proxy or provide sufficient notice of a vote, or because an error is committed by any party involved in the proxy voting or registration process. Edgbaston may also refrain from voting if it is considering liquidating a position (as shares may be blocked when proxies are submitted), where the costs of voting a specific proxy outweigh the economic benefit that Edgbaston believes would be derived by the Client, where a specific class of shares does not carry voting rights with respect to a given issue subject to shareholder vote, or where re-registration of the shares into the Client’s (rather than Northern Trust’s nominee’s) name may (or may reasonably be expected to) result in a violation of local privacy laws or adversely impact the Client’s economic interests.

Unitholders are advised that when voting proxies in certain Asian markets, Edgbaston may be constrained by certain country or portfolio company specific issues. For example, some companies in the portfolio impose voting caps on the maximum number of proxy votes that any single outside shareholder may control. Others require all board issues to be resolved by a show of hands, rather than a poll. As all shares may be held by one nominee, these restrictions have the effect of substantially limiting the impact of any proxies cast. Furthermore, some companies in the portfolio may restrict investment managers (such as Edgbaston) from voting proxies where disclosures of holdings or securities under Edgbaston’s control have not been made on a timely basis or in a format required under their articles of incorporation.

Additional information on Edgbaston’s proxy voting and corporate governance policies can be found in the Stewardship Code Statement on Edgbaston’s website ([www.edgbastonip.com](http://www.edgbastonip.com)). Unitholders may receive a quarterly summary of proxies voted or not voted and issues raised at meetings held by portfolio companies by contacting Edgbaston’s Client Services representatives (at [clients@edgbastonip.com](mailto:clients@edgbastonip.com)) and asking to be included on the quarterly proxy voting distribution list.

## APPENDIX 2

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

As value investors, we invest in the cheapest quartile of our universe. We consider environmental, social and governance (“ESG”) issues amongst a broader group of factors when making a quality assessment of an investment. These assessments feed into the valuation we are prepared to pay for any business. Higher levels of aggregate risk (lower quality) require a bigger margin of safety.

Within the valuation discipline, our approach is to engage with companies to encourage better practices on ESG issues. Companies in the cheapest quartile are often unfashionable and overlooked but many are still working towards improving their standing in these areas or can be encouraged to do so.

We do not utilise ESG screening in our investment process. Exclusionary policies imply that the responsibility for engagement rests elsewhere and we disagree with this premise. Exclusionary screens are also less successful in capturing companies making improvements in their ESG practices.

We place emphasis on our own, internal research with the assistance of some third-party resources. Each of our investors engages in the research, analysis and assessment of ESG considerations as part of our regular research process. The assessment of ESG factors can be nuanced and complex; our view is that it is best done on a case-by-case basis. We believe that a score-based approach fails to capture both the sheer diversity of ESG factors (many of which are qualitative in nature) and the inconsistent disclosures across regions and even individual countries.

Our approach is holistic. We believe that balance is required between environmental goals, social consequences and governance considerations. A good illustration is the two Indian hydroelectric power producers in the Portfolio: NHPC and SJVN. Hydroelectric power is considered crucial to the clean energy transition in India as the government aims to increase the country’s reliance on renewable generation. However, new dams have been responsible for population displacement as well as increased and repeated risk of severe flooding. How, as investors, should we balance the immediate environmental degradation versus longer-term climate protection and the social impact of giving more Indian citizens access to electricity? The answers are seldom simple.

We have been explicitly considering governance issues for many years and the process is well integrated into our research process. We consider factors such as the Board’s track record in terms of management oversight, executive pay and suitability of the management team. It is encouraging when the Board is suitably qualified and diverse with a good understanding of the business, its risks and opportunities. We also consider both the Board and management’s long-term track record on topics such as ensuring a sensible capital structure has been maintained, capital allocation, balancing the rights of all shareholders, ensuring the price paid for acquisitions has been reasonable and ensuring that acquisitions have been in the interests of the business.

Perhaps most importantly, we also consider the company’s decision in terms of the dividends and the pay-out ratio as a particularly reliable indicator of governance. We believe the pay-out ratio is one of the best ways of measuring, in a single metric, many of the smaller decisions a company makes in terms of the efficiency of its capital allocation. If a company is able to return cash which is excess to its operational and investment requirements, we can then extrapolate that there are other sensible decisions being made within the business.

In assessing environmental issues, we consider how competitive the business is relative to its peer group (whether that is domestic, regional or global). In our experience, the environmental footprints of companies in sectors such as utilities, transportation, extractive, steel and cement tend to be directly correlated with the competitiveness of the business – companies who operate newer facilities with greater economies of scale and those who have invested in their facilities tend to have an advantage against those operators with older, smaller and often more polluting facilities. We are mindful of whether the asset basis is compliant with current regulations or will require further investment to ensure compliance. The latter can raise issues around fines and litigation which have their own financial consequences and would not be indicative of a business being run in a sustainable fashion. We also consider any upcoming changes to environmental

regulations and how these future changes are likely to impact the company's position. Understanding whether the company has been a leader or a follower in terms of adherence to regulatory issues, informs us of management's attitude towards corporate citizenship. Finally, we also assess requirements for capital expenditure and whether this relates to growth, maintenance or upgrading of facilities. Necessary and/or pre-emptive expenditures feed into the normalisation process and may impact our estimates of normalised earnings.

Companies' social responsibilities include factors such as providing a safe workplace and contributing to the local economy in the form of employment and taxation. These are very difficult to quantify and can be in direct conflict with the narrowly defined role of generating shareholder returns. In our view, sustainable businesses are not built without participation in the local community – a broader definition of stakeholders is necessary to create sustainable businesses.

In the past, we would engage with management primarily on governance issues. As our thinking has evolved, the framework we have in place is now equally useful when discussing environmental and social issues. Today we engage with companies more broadly. We will raise a poor or deteriorating ESG record during discussions with management or in a letter to the Board. Engagement is a long process that can take many years and even then, success is not guaranteed. However, at least by remaining shareholders, we are able to exert influence and cajole companies to improve themselves.

We are aware that many investors such as colleges, universities and/or private charities may maintain a list of securities of restricted companies operating in certain industries or economic sectors from which they would like their investment managers to divest. Our policy is to respond to any enquiries that we receive on ESG matters. Unless legally required to do so, we have not, however, agreed to dispose of any existing holdings or refrain from purchasing other securities that may meet our valuation and quality criteria. For more information on this topic, please contact [clients@edgbastonip.com](mailto:clients@edgbastonip.com) or see our Stewardship and Shareholder Engagement Policy, which includes our Proxy Voting Policy, at [www.edgbastonip.com](http://www.edgbastonip.com).