RIVER AND MERCANTILE

Tier 3 RAMIL Engagement Policy

October 2021

Contents

1. Purpose and Scope of this Policy

The aim of this engagement policy is to set out the beliefs and framework that drive how we engage with all stakeholders, and outlines what clients and other stakeholders should expect of us as their trusted partner. This policy is in accordance with the requirements of the Shareholder Rights Directive II ("SRD II") implemented in the UK in June 2019; however, we aim to go beyond regulatory requirements where possible to achieve the best outcomes for our clients. This includes both financially (improving risk and/or return) and in creating positive (but non-financial) societal impacts. This Policy accompanies, and should be read alongside, the Tier 3 RAMIL Voting Policy (referenced in Section 4).

RAMIL holds investments in both pooled funds and direct stock holdings. There may be some instances where RAMIL is not the appointed manager on a portfolio but has proxy control over elements such as voting or engagement. In these cases, this policy applies as far as is possible within the constraints of the mandate. Across both the external fund holdings and direct stock holdings, RAMIL attempts to follow a consistent framework, although there will be places where implementation will diverge as is documented in the policy.

Ultimate responsibility for this policy sits with the RAMIL Board. The Senior Manager within the Macro team (who is also on the Board) is responsible for the day-to-day implementation of this policy. This policy is considered a tier 3 policy under the R&M Group Framework and should be considered alongside all tier 2 policies and RAMIL tier 3 policies. In particular the Responsible Investment Policy and Exclusions Policy.

We recognise that engagement can potentially lead to conflicts of interest. RAMIL will seek to prevent or manage any conflicts in accordance with the River and Mercantile Group Conflicts of Interest Policy, further details of which can be provided on request.

2. Our Approach to Engagement

River and Mercantile Investments Ltd ("RAMIL") firmly believes that pro-active and positive engagement with all stakeholders is an essential part of our business. This starts with our clients, for whom we are acting as fiduciaries and will have views on how and what we should engage on, all the way through to fund managers we appoint and companies we invest in.

Our objective is to use our engagements pro-actively in the generation of stable, long term returns for our clients and, where it does not adversely impact risk or return, a positive societal impact.

We have several core principles that drive our approach to engagement:

- **Investment focused:** We prioritise engagements where we believe there will be a positive impact on risk and/or return for portfolios.
- **Impactful:** We target our engagements where we believe they can have the greatest impact – as part of this we will also set achievable targets we can be measured against for all engagements.
- **Climate aware:** As per our other policies, we believe climate change is a genuine risk for the planet and for many portfolios. As such we actively engage to ensure stakeholders are aware of the risk to portfolios, and of changes they can make to reduce the impact of climate change.
- **Client led:** We are only stewards of client capital and we will look to engage with clients to understand their priorities – we view this as particularly beneficial concerning non-financial impacts where investment rationale is not the key driver.
- **Transparent:** Our engagement activities should be transparent for both our clients and our fund managers/companies. We will always endeavour to give a clear rationale for a request, and to provide clients with records of our engagements where we are legally allowed to.

2.1. Who do we engage with?

As above, we believe engagement with all stakeholders is an essential part of our business. Our engagements span 5 primary groups: engagements with clients, engagements with our buy-rated investment managers, direct corporate engagements, collaborative engagements with our peers and other industry participants, and engagements with our suppliers.

Clients	Investment Managers	Corporates	Industry Participants	Suppliers
Understanding our clients' priorities, and identifying the topics that they would like us to engage on, is essential to long term success and strong relationships.	As stewards of our clients' capital, our third party managers are held to high standards, and we engage to ensure those standards are continually met.	We believe by engaging with companies in a pragmatic way we can effect change and drive value, either for our clients' and/or wider society.	There is power in numbers. We actively seek opportunities to collaborate with other investors, as well as taking part in relevant industry initiatives.	We have a duty to encourage all stakeholders to improve; in particular we push our ESG data providers to improve the quality of data used in our investment process.

2.2. Our intended outcomes

In line with our principles, we value engagements which we expect to **reduce risk and/or improve returns for our clients' portfolios**. For example:

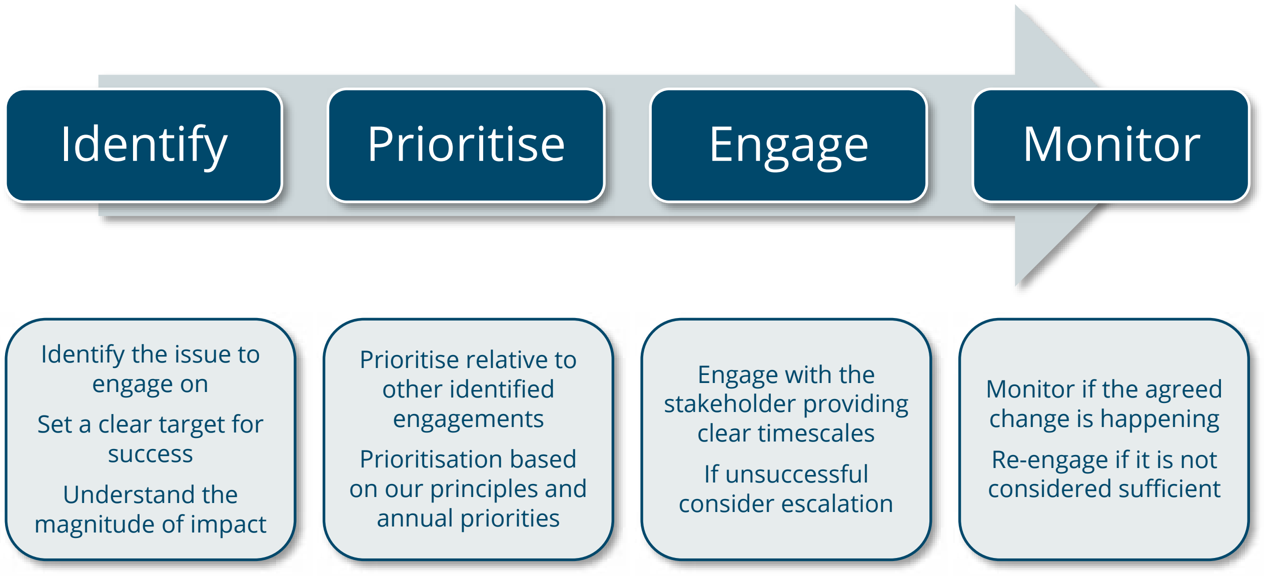
- Engaging with a fund manager as we do not believe they are sufficiently accounting for climate change risk factors in their portfolio construction process.
- Engaging with our ESG data suppliers to improve the quality of ESG data used for investment decision making.

Whilst improving our clients' investment outcomes is paramount, we also want to create **positive societal impacts** where possible (assuming it does not come at the expense of return or increase risk). This may include engagements where we cannot attribute an immediate risk/return impact, but we believe over the long term will be a positive step for the stakeholder or wider society. For example:

- Participating in a collaborative engagement to encourage companies to investigate deforestation risks within their supply chains, in a bid to indirectly reduce deforestation.
- Engaging with a company around maintaining biodiversity, where we cannot see an immediate financial impact but firmly believe this will be a positive benefit for society.

3. Our Engagement Framework

In line with our principles, we believe that to achieve the most from our engagement activities, a clear process is needed focusing resources on engagements which will have the greatest impact. This means that engagements are both categorised and prioritised as part of a four-stage process:



This applies across all of our engagements; however, the implementation of each stage is adapted to fit the asset type, as is detailed below.

3.1. Engagements with clients

Clients are our business. Nothing is more important than our engagement with them as we are only stewards of their capital. Therefore, understanding how they would like us to engage with companies and fund managers is essential to long term success and strong relationships.

We take a pro-active and structured approach to our engagement with clients. This is primarily built upon an ESG beliefs survey that is offered to all clients to allow us to **identify** key engagement themes. The results of our belief surveys are collated at a RAMIL level to provide us with a clear picture of the requirements of our clients.

As per our engagement principles we will generally **prioritise** engagements on areas such as climate change and positive enhancements for risk and/or return; however, our engagements with clients provide us with another input to consider when we are prioritising engagements. They allow us to understand both how to prioritise some of these engagement types and also where we should target engagements in the non-financial impact category.

We **engage** with clients informally on an ongoing basis, and formally via the belief survey. We **monitor** the development of our clients' priorities by re-engaging on a tri-annual basis at a minimum.

3.2. Engagements with investment managers

We **identify** engagements using our four-pillar framework; the four pillars form the basis of our ESG assessment for funds managers, and allow us to identify areas for improvement.

Corporate	Stewardship	Investment	Portfolio
The manager's own business should have strong ESG credentials. We want to work with firms addressing issues such as diversity and climate change.	We want managers to effect positive change by engaging with their underlying holdings. This pillar spans all forms of active ownership, including voting.	We want evidence that ESG is integrated into the investment process. This includes the approach to measuring ESG, quality of data and ESG resource.	We assess portfolios across a range of E, S and G measures, including carbon emissions. We evaluate consistency with the manager's investent processes.

We apply the framework using a proprietary questionnaire and scoring matrix which aims to create consistency across managers. Within each pillar there are a range of areas considered, which are aggregated into a proprietary traffic light rating system, with each pillar being flagged as red, amber or green. Where a manager has a pillar that is flagged red, this is then typically a strong trigger for engagement, although there is a range of factors detailed below that drives how these are **prioritised**:

- **Our principles** – for example areas pertaining to climate change will be prioritised alongside those that can create investment risks or if clients have shown a clear desire to address.
- **Potential impact** – the larger the expected impact the higher the prioritisation.
- **Probability of impact** – if it is clear the engagement will almost certainly have an immediate impact this is more likely to be prioritised over potentially higher impact but very uncertain engagements.
- **Group initiatives and annual priorities** – where there is a particular focus for the Group, for example increasing diversity in the workplace.
- **Collaborations** – where RAMIL has committed to certain collaborative initiatives this may lead to a higher prioritisation.

The scores for each pillar are collated into an overall manager ESG rating, which uses our proprietary traffic light system to **engage** as follows:

- **GREEN** – Evidence of strong integration of ESG in the manager's business and in the fund's investment process. **Manager/fund available for inclusion in portfolios, with ongoing monitoring and engagement.**

- **AMBER** – Evidence of sufficient integration of ESG in the manager's business and in the fund's investment process, with areas identified for future improvement or enhancement. **Manager/fund available for inclusion in portfolios, with targeted monitoring and engagement.**

- **RED-Engagement** – Evidence of inadequate integration of ESG in the manager's business or in the fund's investment process, but where we believe that with targeted and enhanced engagement the manager can improve. **Manager/fund available for inclusion in portfolios, but is subject to enhanced monitoring and reporting. Failure to improve over a defined timeframe will result in downgrade to RED-Exclusion.**

- **RED-Exclusion** – Evidence of poor corporate culture or sub-standard internal processes (e.g. AML/KYC etc) as identified by operational due-diligence or poor integration of ESG investment process with no expectation that this will be remedied over a reasonable timescale. **Manager/fund prohibited from inclusion in portfolios.**

Engagements will be recorded in a central system that provides a complete record of the category of engagement and what would be considered success. **Monitoring** is carried out through the same system with clear timescales for re-engagement and reporting to the relevant oversight function.

Engagements are classified as ongoing, partially successful, successful, or unsuccessful.

If an engagement is classified as partially successful or unsuccessful then we have a clear escalation process that is followed:

1. Do we think there is a realistic chance of success?
    a. If this is not the case then we will move to step 5, if we do then we move to step 2.
2. Identify the next level of engagement.
    a. For example, if we have been engaging with Consultant Relations in respect of a pooled fund, then we may try to engage with the Head of Pooled Funds (or similar).
3. Reassess our request to understand if there is a possibility of achieving partial success if full success is not considered possible.
    a. For example, if we are pushing for a Net Zero goal and a company will not commit, then a partial success may be that the matter is discussed at Board level and documented.
4. Re-engage on our updated goal with clear deadlines and potential impacts documented.
5. Decision on whether to adjust the allocation
    a. For example, this could include keeping the allocation the same, reducing or making a full redemption.

3.3. Direct corporate engagements

As for fund managers, we **identify** direct corporate engagements using a four-pillar framework, albeit one adapted for direct securities. The four pillars below form the basis of our ESG assessment for direct securities, and allow us to identify areas for improvement.

Environment

We measure companies' climate change impact through their carbon intensity. For companies where other climate change factors (e.g. toxic emissions, electronic waste, packaging waste, water stress) are a key risk or opportunity to their business, this will be measured through our risk based ESG score.

Risk-based ESG

This is a broad measure based on traditional ESG characteristics, and the metrics used differ by industry. E.g. Banks are assessed on factors including privacy & data security and product safety. Energy companies meanwhile will be assessed on factors including toxic emissions and biodiversity.

People

Companies are dependent on people, not just at senior levels, but throughout the organisation. We assess firms on their ability to have policies and processes, as well as the culture and values, to create great places to work. This pillar quantifies this concept by evaluating a company's approach to areas such as human capital development and health & safety.

Innovation

We are interested in companies that use innovation as a means of achieving sustainability and retaining great people. We consider both a company's input, such as R&D spending, and also the outcome, such as an improvement in sales or margins.

We apply this framework using a quantitative screen and **prioritise** engagements as follows:

- We look for companies that, while overall showing strength on our four sustainability pillars, are demonstrating weakness in at least one of our pillars
- We assess the underlying factors below these pillars and look for those companies that are not showing evidence of improvement. Our view is that good management teams, even if they are weak in a particular area, should be improving
- We then apply an overall significance test, meaning that we recognise our engagement with a company is only likely to be considered if we hold a sufficient position in that company. We have set this threshold to be 0.5%; i.e. we will follow our engagement process in situations where we own more than 0.5% of a company's market cap
- If the significance test is not met, we will instead seek opportunities to engage with other shareholders as a group through collaborative engagement

Engagements will be recorded in a central system that provides a complete record of the category of engagement and what would be considered success. **Monitoring** is carried out through the same system with clear timescales for re-engagement and reporting to the relevant oversight function.

The engagement process is defined below and involves a clear escalation process where relevant:

1. Confirm how other investors are engaging and look for collaboration with third parties
    a. Examples of this could be through UN PRI, Share Action, NGOs
2. Consider the potential significance of the issue for clients and contact company about the issue identified within the four sustainability pillars if deemed appropriate
    a. Also use proxy voting as a tool to express our views – in particular aim to support shareholder resolutions where they are in line with our views
3. Re-engage with the company if we deem there to be a significant risk and there has been no response or improvement from the company.
    a. Extend our voting intentions to include voting against Chair or senior NED
4. Issue resolved or review holding, including the option to divest or add company to exclusions list.

Engagement as an advisor to funds

Where we allocate to third party funds but have influence over the security selection, we will also aim to use our four sustainability pillars to identify companies for engagement. The engagement would be with the third-party manager, to whom we highlight the issue and encourage them to engage with the underlying company. The process for engagement with the managers is highlighted below:

1. On an annual basis, have a discussion with the managers over key engagement themes for the year ahead
2. On a quarterly basis, use the process highlighted above in individual engagement to create a list of companies for the manager to engage with
3. Have quarterly feedback discussions with the manager and monitor any engagements undertaken

3.4. Collaborative engagements with our peers and other industry participants

Change can be created through engagement in range of ways. Individual one-on-one engagement is a crucial element of this but RAMIL acknowledges it is part of a wider ecosystem which often needs collaborations between a wide range of stakeholders to effect change. In particular, where the Group or RAMIL may have targeted initiatives, we will look to collaborate where possible to push these forwards.

We **identify** collaborative engagements using a wide range of sources, but are most likely to seek collaborative engagements in the following scenarios:

- Where we wish to engage on a broader macro or societal theme that affects a group of companies or industries
- Our primary tool for individual engagement to engage with issues raised by our four sustainability pillars as it allows us to have a greater weight behind the engagement and therefore more likely to deliver a positive outcome

The UN PRI has a collaboration platform that enables signatories to find and join collaborative engagements from across the industry, thus providing a tool to help us identify engagements. These engagements on the platform can target individual companies or can address a wider societal issue.

In line with our transparency principle, we aim to help stakeholders understand what drives our decisions around whether to **prioritise** a collaboration or initiative:

- **Collaborative strength**: The issue is something that is better collaborated on, for example if it requires a significant weight of assets or it needs to be brought to public attention.
- **Society wide**: If the issue is society-wide and the benefits will accrue to a significant proportion of the population it is likely collaboration is the most effective option.
- **Complexity**: We do not have the answer to everything – where there are particularly complex problems a collaborative approach to bring new ideas can be beneficial.
- **Priorities and principles**: If the collaboration is clearly in line with our priorities and principles set out in this policy and other formal correspondence.
- **Client led**: Where there is a clear desire from clients on an issue then it is generally easier for us as an FM to many clients to collaborate effectively on their behalf.
- **Conflicts of interest**: We need to be satisfied that there are no conflicts of interest created by the collaboration – this is covered in our separate Conflicts of Interest Policy.
- **Competition potential**: Is the collaboration consistent with current competition law in the relevant jurisdiction.

The examples below illustrate how we **engage** in line with the principles above. These examples span industry initiatives and collaborative engagements, and have clearly defined **monitoring** processes in each case:

River and Mercantile Group, of which RAMIL is a subsidiary, is a signatory to the UN Principles of Responsible Investment ("PRI"). As such we have publicly committed to the six aspirational principles and report on these annually, including principle 2 of the PRI which states that "we will be active owners and incorporate ESG issues in our ownership policies and practices".

We have also signed up to an Investment Consulting industry initiative (driven by UKSIF (UK Sustainable Investment and Finance Association) and AMNT (Association of Member Nominated Trustees)) which focus on ensuring our clients are well versed in ESG.

We are also supportive of collaborative engagements and in 2019 joined a group of 230 institutional investors (representing $16.2 trillion in assets under management) to sign a statement urging companies to act against the escalating crisis of the Amazon deforestation.

In line with our commitment to combatting climate change we are member of Climate Action 100+ which seeks to ensure the world's largest greenhouse gas emitting corporates take the necessary action to reduce their adverse impacts.

3.5. Engagements with our suppliers

We believe that engagement is multi-faceted and any opportunity that we have to inspire positive change should be taken. This includes oversight of our suppliers, particularly in respect of ESG data, such as those organisations who provide us with ESG metrics on companies and climate change analysis. For example, if we can improve their offering with our own feedback and engagement that is a positive for the entire industry.

We **identify** areas for engagement through our ongoing quality assurance processes, as well as on a more thematic basis (e.g. based on annual priorities or client-let initiatives) and such engagements are **prioritised** in line with our principles. All suppliers who are subject to this policy are given a RAMIL owner who is responsible for collation of feedback and for **engaging** with them. In each case **monitoring** is carried out via a review of the service which happens at least every three years.

4. Voting and Annual Engagement Disclosure

As detailed in the Tier 3 RAMIL Voting Policy, we believe that exercising our clients' voting rights in their best interests is an important part of our fiduciary duty. We will subsequently exercise our clients voting rights whenever possible. There may be occasions where we abstain, whether due to considerations around policy, process, or cost to clients, however we will not abstain where we do not believe it is in the client's best interest to do so.

RAMIL are transparent about our engagement and voting activities. We will report key outcomes of our engagements in our annual engagement report, which will be available in early 2021 and cover the 2020 calendar year. The RAMIL Voting Policy is available on our website: https://riverandmercantile.com/responsible-investment/.