HARGREAVES LANSDOWN

STEWARDSHIP AND ENGAGEMENT POLICY

INTRODUCTION

The Principles for Responsible Investment (PRI) defines stewardship as the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social, and environmental assets, on which returns, and clients' and beneficiaries' interests depend. Stewardship can be delivered through monitoring, engagement, collaboration, voting and active management.

Engagement is active dialogue to improve ESG practices, sustainability outcomes or public disclosure. Engagement is core to our stewardship efforts as it provides us with the opportunity to improve our understanding of the risks and opportunities that are material to the companies and funds in which our clients invest.

At HL plc, HLAM and HLFM, the primary purpose of our stewardship and engagement activity is to preserve and enhance shareholder value.

POLICY PRINCIPLES AND REQUIREMENTS STEWARDSHIP

ESG Risk Monitoring
Across all investment solutions, a key way HL delivers stewardship is through ESG risk monitoring. We monitor compliance with the ESG Investment Policy. Through due-diligence questionnaires, regular fund manager and company meetings as well as ongoing quantitative and investment risk monitoring, we obtain insights which lead to more informed engagement and investment / divestment decisions on behalf of our clients.

We monitor and assess the ESG credentials of all funds under coverage. This is assisted by our in-house ESG analysis team, which assesses securities against our proprietary ESG analysis process which leverages insights from our fund group dashboard, ESG data (provided by Sustainalytics) and third-party research. Any ESG risks raised by this assessment that are deemed impactful to our clients will be raised with the relevant fund manager and will follow our engagement process.

We monitor the ESG risks of our HL Select funds by understanding and analysing the materiality of ESG risks for the companies we hold and our investment universe. We will assess how ESG factors impact the risks of our investment thesis as a whole.

Transparency and accountability
We report annually (following the end of our financial year) on the outcomes of our approach to engagement as outlined below. For our HL Select range, this will include our voting record for the period.

We communicate regularly with our clients about our investment strategy, progress on encouraging good practice with our managers, and our views about the issues affecting the investments within our funds. For our HL Select range, our full portfolio of investments, and the rationales for holding them, are disclosed on dedicated pages of our website.

Conflicts of Interest
Actual and potential conflicts of interest will be managed in accordance with the Hargreaves Lansdown Group Conflicts of Interest policy, available here. Where actual or potential conflicts relating to our engagement work are identified, these will be recorded in the HL Conflicts of Interest Register, along with mitigating controls and responsibilities.

Insider Information
HL Fund Managers should not be directly approached with market sensitive or material non-public information. From time to time, issuers of securities and their advisers may seek to engage with HLFM in relation to corporate situations where there may be an element of inside information. Requests of this nature should be directed towards the Investment Oversight team, which has processes for coordinating our response as appropriate.

Should any member of staff within HLAM or HLFM obtain insider information during the day-to-day completion of their duties, it is immediately reported to the Investment Oversight team for logging. HLFM, in conjunction with the Investment Oversight Team, will then ensure trading is restricted in all investments to which they believe the insider information applies. For HLAM, where equities or funds are being promoted via a campaign, this is managed through the creation of an insider list via the Company Secretary prior to research publication.

Engagement

Engagement approaches across all HL solutions

HL Select funds (UK UCITS)
We use engagement to both aid our decision-making processes and to influence corporate leaders. We prefer to engage than exclude, but there are certain investments in which we will not participate. Our exclusions are covered in our ESG Investment Policy.

If we identify issues where we believe a different course of actions would lead to an improved outcome, we will exercise our voting rights, where applicable. Where our holding is of a scale to make corporate access a realistic prospect, we will meet with executives or Board representatives to discuss these issues.

In accordance with regulation, we monitor the business models and strategies of the companies in which we invest and assess whether these seem appropriate for each individual business. We look at the risk factors facing the company, including financial and non-financial risks, and assess the company's approach to managing these.

The capital structure of a business is a vital decision for the board. They must balance the objective of achieving attractive returns on equity against the financial risk that leverage can impose upon a company. We are conservative in our approach to the financial structures we endorse.

We believe that sustainable returns can only be achieved if a company is operating its business in a responsible way. We expect businesses to achieve robust levels of environmental performance and to constantly seek to assess their capacity to improve this whilst earning economically viable returns. Management teams should report this progress clearly to their shareholders.

From a social perspective, we expect businesses to treat their employees fairly and to be a positive contributor to the communities within which they operate. We recognise that the act of providing employment itself is normally a significant benefit to a community. Governance and long-term performance are inextricably linked. We expect our investee businesses to have boards and executives with the balance of skills necessary to both manage the business and provide oversight and control of the executive functions of the group.

HL Multi-Managers (NURS)
The HL Multi-Manager funds invest in segregated mandates and third-party funds run by a large number of external managers. The HL Multi-Manager Investment team engages with these managers throughout the year to assess performance. Part of this process is to receive regular updates regarding the engagement approach and outcomes achieved by each fund group.

Where we invest through segregated mandates, we delegate engagement responsibilities to the external manager, though we retain the right to direct the manager on how to vote at our discretion.

Asset Classes
We recognise that engagement approaches may vary based on the characteristics and opportunities within each asset class. Engagement outcomes can vary due to differences in influence and control, time horizon, disclosure and transparency, and stakeholder dynamics. As such, there are a range of escalation tools that investors can utilise.

The majority of our assets are managed through a mix of segregated mandates and third-party funds. Here we delegate engagement to the appointed manager, and our analysis is focused on manager selection, appointment and monitoring. We expect appointed managers to understand the specific dynamics and considerations within each asset class, to tailor engagement strategies and optimise the impact and outcomes. For example, fixed income managers may need to make greater use of collective engagement given their lack of voting rights.

Engagement Topics

There are three main channels that provide a trigger for engagement:

1. ESG Risk Monitoring
All HLAM and HLFM funds and investment solutions are monitored against the requirements of the ESG Investment Policy on an ongoing basis by the ESG Analysis team. This can provide a trigger for engagement, following our engagement principles.

Managers of segregated mandates and the HL Select funds are subject to the exclusions outlined in our ESG Investment Policy. Controls are in place to ensure these companies are not invested in, and we closely monitor the portfolios to ensure they remain free of exposure to excluded companies. We also monitor companies that are at risk of breaching the limits of our exclusions and engage with portfolio managers to understand how they're managing the heightened ESG risks that come with investing in those companies.

Where we invest in third-party funds, we have no direct control over the investments that the fund manager makes. However, we commit to engaging with active fund managers where they have more than 0.1% exposure to the excluded companies through directly held assets. We will engage with passive fund managers in our Workplace solutions when the aggregated exposure to excluded areas exceeds 0.1% across all the index funds and ETFs we support from a specific fund house. Our objective for this engagement is to understand the reasons they invest in these companies (in the case of active funds), how the heightened ESG risks are being managed, and any engagement that's taken place.

Our ESG Investment Policy also sets out the requirement for all fund groups to publicly pledge to net zero by 2050 or earlier (covering at least scope 1 and 2 emissions) and to be working towards creating a robust transition plan to support this pledge. Those that have not set a decarbonisation target will face divestment after a two-year engagement period should they not comply.

We will engage with groups that have not set a net zero target, and set them a specific, measurable, achievable, relevant, and time-bound objective to enable them to meet our requirements.

We analyse the quality of ESG integration at each of the fund houses we invest with at least once per year through our proprietary Fund Group ESG Analysis, ESG Fund House Dashboard, and our Product Governance due-diligence assessment. Where we identify areas for improvement, HL will engage with the fund managers.

2. Core Themes

In line with HL's values, ESG priorities, and stakeholder expectations, we have identified the following three mega themes to provide distinct areas of focus. We acknowledge that engagement themes may vary based on the sectors in which investee companies operate.

Using our proprietary ESG dashboard leveraging data from our third-party data provider, Sustainalytics, the ESG Analysis team screens all solutions against key metrics for the following themes. Any risks that breach our thresholds are escalated to the relevant manager and engagement is instigated with the investee company or fund manager following our engagement principles.

Climate Change

HL recognises climate change as a material ESG factor and a systemic risk to our economy. We are committed to transitioning to net zero by 2050 at the latest and have pledged to reduce the weighted average carbon intensity of our listed equity and corporate bond investments by 50% by 2030, relative to a 2019 baseline. Please refer to our Climate Transition Plan for more details on our engagement-led decarbonisation strategy.

We believe engagement on climate change-related issues is important as there are many opportunities for investee companies and fund groups at the forefront of the net zero transition. Implementing energy efficiency measures, waste reduction strategies, and sustainable supply chain practices can often lead to cost savings and operational efficiencies. On the other hand, anticipating and capitalising on changing consumer preferences and regulatory trends can lead to market expansion and increased market share.

Engagement can also help to mitigate risk. Physical risks associated with climate change can be acute or chronic. Increasing frequency and severity of extreme weather events can result in property damage, supply chain disruptions, and increased insurance costs. Transition risks tend to fall into the following categories: policy and legal, technology, market, and reputation. Stricter environmental regulations and policies aimed at reducing greenhouse gas emissions can result in increased compliance costs and potential fines.

Engagement objectives may include the company publicising a net zero target and transition plan, assessing climate-related risks, or encouraging the adoption of renewable energy sources. We undertake stewardship with industry peers to share expertise, experience, and address common challenges in support of the achievement of net zero objectives.

Community Relations

A core pillar of HL plc's strategy is being a responsible business. We expect our investee companies and fund managers to also promote the practices of responsible business. This involves sustaining positive community relations.

There is a wealth of opportunities that come from having strong community relations, such as enhanced reputation and brand value. This can strengthen customer loyalty and trust whilst attracting and retaining employees. Strong community relations are often the bedrock of long-term sustainability.

Companies with poor community relations face potential reputational and operational risks. When community relations are strained, projects can face delays and obstacles, increasing operational costs. Negative publicity, reduced customer trust, and operational challenges can result in decreased revenues, reduced market share, and potentially affect the company's long-term profitability.

Engagement objectives may include promoting community development initiatives, assessing social impact, or addressing community concerns.

Remuneration

At HL, our aim is to attract, develop and retain outstanding people who can deliver our future strategic goals, and remuneration is key to this delivery. Fair and adequate compensation is crucial for long-term sustainable value creation and responsible corporate governance. We assess all investee companies in our direct equity funds to ensure remuneration supports the firm in retaining talent and that the structure of pay is aligned with shareholder interests.

Fair and competitive remuneration practices can enhance employee engagement, productivity, and retention, leading to reduced turnover costs, improved organisational performance, and innovation. Variable pay structures tied to specific financial, operational, and ESG performance metrics can incentivise executives to prioritise long-term shareholder value.

We recognise a range of risks associated with inadequate or misaligned executive compensation packages. Poorly designed or excessive executive compensation can raise concerns about corporate governance practices and create reputational risks, resulting in a loss of public trust, customer loyalty, and investor confidence. Media scrutiny and public backlash related to perceived executive pay inequities can damage a company's brand image and impact its market value.

Engagement objectives may include promoting fair and transparent pay structures, aligning incentives with long-term performance, or linking remuneration to ESG goals.

3. Survey Themes
We have committed to collate themes for engagement every two years through client surveys. We aim to understand the issues our investors care about most and focus our engagement on driving positive outcomes in these areas.

In our 2022 Sustainable Investor Survey, deforestation emerged as a clear theme clients wanted HL to engage on.

Deforestation
We recognise deforestation as one of the key drivers of climate change. The clearance of forested land through burning releases vast amounts of greenhouse gases into the atmosphere, and the process of deforestation reduces the ability of an area to store carbon. We commit to understanding the scope and impact of deforestation within our funds.

By collaborating in the Global Canopy and Make My Money Matter Deforestation Free Pension working group we aim to support the industry and regulator in defining standards and guidelines to mitigate this risk. As a member of the Tropical Forest Alliance's Investors Policy Dialogue on Deforestation we support engagement with public agencies and industry associations in selected countries on the issue of deforestation.

In our annual ESG due diligence questionnaire, we ask our appointed managers for evidence of how they are managing nature-related risks in their portfolios. We engage with managers who provide substandard responses to encourage the improvement of their risk assessment and mitigation strategies.

Engagement Principles

To ensure our engagement is effective, we define specific engagement objectives informed by our ESG data and supported by the ESG Analysis team. These are then shared with investee companies or fund managers. We track progress against these engagement objectives over time. Within the HL Select range, engagement is prioritised based on the materiality of the issues being highlighted and alignment with the funds' objective.

We use resources efficiently so that engagement coverage is as broad as possible whilst using all the tools available, including collective engagement. We focus our resources on areas where we think we can have a positive impact, our chances of success are higher, and on the topics that align with our investors' interests.

We can engage in a variety of ways, depending on the severity of the engagement topic. In some instances, corresponding with companies via email may be appropriate. In other cases, we may choose to hold meetings/ calls with fund managers, investor relations teams, executives, or Board representatives, alongside site visits. In all cases, dialogue must be consistent, direct, and honest.

We recognise that change is a process. We prefer to engage on longer-term, meaningful issues, but we will also engage on short-term issues that affect our clients' invested capital. We also continue to focus on long-term value preservation and return and/or income generation alongside our ESG commitments.

If fund managers of segregated mandates and/ or companies fail to respond positively to our engagement we will seek additional meetings with the fund manager/ company and join collaborative engagement schemes where appropriate.

Should this escalation fail to invoke meaningful change within a time period set by our engagement framework, fund managers of segregated mandates will face divestment. For HL Select, should this escalation fail to invoke meaningful change within a reasonable time period we will review our original investment thesis.

Collective Engagement
We will utilise collective engagement initiatives if we have concluded that this avenue is appropriate and will enable us to have a greater chance of success in our engagement.

When circumstances require shareholders to communicate with one another to address governance concerns we are happy to discuss publicly available matters with other investors. We will only do so if there is a realistic prospect of effecting change and we reserve the right not to engage with investors who do not have a significant holding in the company concerned.

Voting
We always seek to vote at meetings of the companies we hold in the HL Select funds unless we are in the process of selling the position.

We take advice on voting from Institutional Shareholder Services (ISS), who have a long track record of monitoring and advising upon corporate governance best practice. In most cases we would expect to vote in accordance with their advisory stance, which we believe is well aligned with the standards of governance that we expect to see from companies.

We will vote contrary to ISS advice if we believe the specific circumstances merit an alternative stance. We may engage prior to the vote with the company concerned in order to better understand the situation.

Instances where we may choose to vote contrary to advice may be where we believe it is appropriate to make exceptions to benchmarks such as Directors' length of tenure. Each Board is different and evolves over time. Applying a one-size-fits-all approach does not always produce optimal outcomes. Whenever we vote against ISS advice, a rationale is recorded.

We monitor a range of key statistics relating to our appointed managers' voting activities and engage with managers if the results are not aligned with expectations.

We provide a summary of our voting activity in our annual Engagement Report.

Engagement with policymakers

HL have taken and will continue to take a pro-active stance with the Government and regulatory bodies on matters that impact our clients. Our focus is on building our clients' financial resilience and boosting their engagement to support them in their financial decisions. To better understand financial resilience we commissioned a unique piece of economic analysis, the Savings and Resilience Barometer. Every 6 months we have measured the nation's resilience across debt, protections, savings, retirement planning and investment. This analysis then informs our policy views – understanding the inter-play between short and long term resilience needs.

In order to better help this decision making we have been at the forefront of pushing for the review of the advice/guidance boundary and efforts to simplify the ISA regime to make it easy for people to save and invest for a better future. The proposed system of targeted support should allow us to make information for clients more relevant to them, to support their financial decisions. We use this evidence based approach when engaging with policy makers from issues as diverse as retail disclosures to retail investor access to IPOs. Going forward with a new Government in place we will actively engage with their pensions review and in particular how to improve the pensions system to boost adequacy of savings levels.

We work with our trade associations and other policy initiatives to promote the implementation of climate and wider economic policies and regulations that support net zero objectives.