

**SHAREHOLDER  
ENGAGEMENT POLICY**

**WESLEYAN**  
*we are all about you*

## 1. Introduction

The effective stewardship of investments and engagement with investee companies is an essential part of asset management and helps ensure the Society and Wesleyan Unit Trust Managers (WUTM):

- act in the best interests of members and customers;
- create value; and
- implement their investment strategy.

The objectives of the policy are to provide a framework to promote:

- sound, long-term investment decision making and effective governance;
- effective stewardship of assets on behalf of policyholders;
- the FCA's objectives of transparency, ensuring market integrity, supporting the long-term interests of customers and encouraging effective competition in the market place; and
- risk management through the responsible allocation and management of capital to create sustainable value for policyholders and wider society.

## 2. Scope

The policy applies to all funds under management of Wesleyan Assurance Society (the Society, including the Wesleyan Staff Pension Scheme, WSPS) and its subsidiary company, WUTM.

## 3. Shareholder Engagement

### 3.1 Integration with Investment Strategy

The investment strategy, at its highest level, is summarised within the group-wide Investment Beliefs document which sets out the principles used by the Investments Team; to adopt a buy-and-hold approach to investing; take a managed approach to risk; adopt a counter-cyclical investment style; and consider income as an important driver of performance. The strategy is implemented by an in-house team. Current examples of how each of these beliefs influences shareholder engagement are included in section 2.2.

The stated Investment Beliefs held by the Society and WUTM are articulated into practical guidance for the Investments Team through Statements of Investment Principles (SIPs). SIPs support the achievement of fund objectives by setting rules and guidance for permitted investments, asset allocation ranges, risk limits, expected returns and environmental, social and governance (ESG) matters.

The Society and WUTM has also produced and implemented a Prudent Person Policy, which confirms the duty of care the entities hold when making investment decisions. The policy requires the Investments Team to invest in assets and instruments where the risks can properly identified, measured, monitored, managed, controlled and reported, and taking into account the assessment of its overall solvency needs.

In recent years ESG matters have become more prominent in making investment decisions, and this trend is expected to become increasingly important. The Society and WUTM are mindful of these concerns and monitor market practices and engage with customers to determine their views on ESG matters. A Sustainable Investing Policy (incorporating ESG factors) has been implemented which is a key element of the Society and WUTM's investment strategy; the implementation of this policy is supported by ESG monitoring and assessment procedures.

The approach taken by the Society and WUTM necessitates effective shareholder engagement to support the implementation of the investment strategy, facilitate effective investment decision making and ensure compliance with the SIPs and Prudent Person Policy. This policy describes the high-level approach taken to shareholder engagement. It is supported by the framework used by the Investments Team, which identifies the key criteria for shareholder engagement and the resulting actions when concerns are identified. The principles used in the implementation of this framework are included in Appendix A.

In addition to this policy, the main elements of how the investment strategy are consistent with the profile and duration of its liabilities and how they contribute to the medium and long-term performance of its assets will be included in the Society's Solvency and Financial Condition Report (SFCR) in 2020.

### 3.2 Monitoring of Investee Companies

In order to implement the Society's investment strategy, the Investments Team recognise the importance of ongoing, effective monitoring at each key decision-making stage of the investment lifecycle. The factors considered include (but are not restricted to) matters relating to strategy, financial and non-financial considerations, risk, past performance, capital structure and ESG considerations.

The key mechanisms used by the Investments Team in their decision making are:

- widely available public information such as Regulatory News Announcements, press reports and Annual Report and Accounts;
- an external proxy voting service that provides detailed company analysis and recommendations to institutional investors on votes to be cast at investee company meetings; and
- research information purchased from research providers and investment banks that support the Investments Team in analysis of certain investments. Research on investment opportunities is conducted centrally and is fund agnostic.

Examples of how each of the Investment Beliefs influence shareholder engagement are listed below:

- **Buy and Hold Approach and Counter-Cyclical Investment Style.** This necessitates a focus on monitoring the achievement of the medium to long-term strategic plans of an investee company. This requires ongoing engagement to confirm the plans are on track and to assess the appropriateness of any management actions to address any underperformance.
- **Managed Approach to Risk.** SIPs provide guidance on the parameters within which a fund is managed and includes permitted investments, asset allocation ranges, risk limits, expected returns and environmental, social and governance (ESG) matters. Ongoing monitoring of investments held and engagement within management is required to ensure the funds continue to operate within these parameters.
- **Importance of Income.** Analysis of company prospects and corporate governance that drive dividend expectations is undertaken through fundamental research and often engagement with management.

Concerns with any investee company are recorded on the Society's electronic files and discussed at the weekly Investment Administrative or Investment Research Meetings, attended by the Fund Managers and Analysts, at which an appropriate course of action is agreed.

Investments Team staff receive training development as part of their performance management to effectively monitor investee companies and highlight material matters and areas of concern. The Investments Team is organised to ensure each market sector has at least one specialist analyst and, in this way, an in-depth knowledge of how each sector, and the companies within it, are maintained. Oversight of each Investment Analyst is maintained by the relevant Fund Manager.

### 3.3 Dialogue with Investee Companies

An essential part of implementing the investment strategy is to engage in purposeful dialogue with investee companies and the Investments Team may utilise the following mechanisms:

- Meetings with senior management and investor relations personnel from actual and potential investment companies. Meetings are held either in person, by conference call or through web-enabled calls;
- Attendance at Annual General Meetings, where questions and concerns can be raised if appropriate;
- If a concern is identified with investee companies then these may be highlighted by discussion at weekly internal Investment Administrative meetings; and
- The provision of open and clear feedback, provided directly to the investee company or through their corporate advisors or in co-operation with other shareholders or shareholder groups (see below).

The Society expects that any information divulged by investee companies will not inhibit trading in the shares of that company unless it is expressly made an 'insider'. The Society and WUTM are prepared to be made insiders to sensitive information provided this information is only made available to certain named individuals. If such an event takes place, internal processes are in place to record and control the dissemination of the information as appropriate, which includes making sure that information is only known to the key individuals who have discretionary authority to trade.

If the Society is made privy to "inside" information, defined as being material information that is not public to all investors, there are mechanisms in place to record, control and stop trading as appropriate, while keeping the number of employees who are aware of the information to a minimum

### 3.4 Exercising Rights as a Shareholder

The purpose of exercising the Society or WUTM's rights as a shareholder is to confirm its approval of governance matters brought to an investee company's Annual General Meeting and seek to engage with the company if concerns have been identified.

The Investments Team has developed its own Corporate Governance and Voting Policy which provides detail on the approach taken to monitoring corporate governance matters and exercising voting rights and is attached in Appendix B.

The Society utilises the research output provided by the Institutional Shareholder Services (ISS) Corporate Actions Research Service, but endeavours to make its own final decision in terms of individual voting instructions where any of the following conditions apply:

- The proxy meeting items contain unconventional, noteworthy or controversial content;
- Where the size of the holding for the Society is material as a percentage of the company shares outstanding;
- The meeting items are considered to be unacceptably breaching corporate best practice; and
- Where the fund is specifically requested to vote by the company (but note this does not automatically mean that the vote will be in line with the Board recommendation).

Where the proxy vote does not meet the criteria defined above, reliance may be placed on the research provided by the ISS voting service and votes cast in line with their recommendations. An annual due diligence check is undertaken over ISS to assess the quality of the service provided and to address any concerns identified.

The Society normally votes for shares on its own account and any significant issues are reported to the Society's Executive or Investment Committee through the normal reporting process. Where the Society is exercising voting rights in the case of assets on behalf of the Wesleyan Staff Pension Scheme, voting activity is reported to the Trustee Directors at Trustee meetings.

### 3.5 Co-operation with other Shareholders

The Society and WUTM reserve the right to collaborate with other shareholders on particular matters of concern and if this is deemed appropriate, it is generally co-ordinated via the Investment Association (IA) or ISS. Ongoing relationships are maintained with personnel from the IA, which helps to facilitate such collaboration.

The Society is also prepared to act directly in collaboration with other investors if it is considered that there is a common interest in highlighting significant areas of concern – whether this is on matters of strategy, performance, ESG or remuneration. This is particularly the case if it is felt that management are acting in their own personal interests and not for the wider shareholder group.

Occasionally the Society and WUTM may be contacted by action groups or other institutional shareholders if they have identified areas of particular concern relating to an investee company. In such instances the Society and WUTM is prepared to listen to the third-party point of view but will make their own decisions on any further action.

### 3.6 Communication with Stakeholders of Investee Companies

In addition to the regular research undertaken on investee companies, there are occasions when this research will be expanded to direct engagement with key stakeholders. This would occur where the Society or WUTM had either a particular concern, needed further information on a specific aspect of an investee company's operations, or to confirm aspects of the company's business model that necessitated direct engagement. Examples of such direct engagement include key suppliers or customers on which an investee company is particularly reliant or has particular influence.

In addition, other data sources are used if they are particularly relevant to a specific company and could include:

- reviewing Trade Union websites and blogs for posts on companies with strong union representation, to identify any employee related issues; and
- reviewing recruitment websites to identify any workforce related issues for companies particularly reliant on specialist staff.

### 3.7 Management of actual and potential Conflicts of Interest

The Society and WUTM's overall objective is to act in the best interests of our customers. It is inherent within asset management that conflicts of interest may arise between firms and their customers, between different types of customers and between individual funds within the Society and WUTM range. The Society and WUTM have policies in place to ensure these conflicts are identified in a timely manner and managed effectively. The key policies which state how the Society and employees should manage actual and potential conflicts, as part of the shareholder engagement process, and the key areas of coverage are summarised below:

#### Conflicts of Interest and Anti-Bribery Policy

As part of the shareholder engagement process, there is the potential for the Investments Team to be offered gifts and hospitality by investee companies. This gives rise to a risk that investment decisions are influenced or perceived to be influenced by the acceptance of such offers. The policy provides principles for staff to identify, disclose, manage, monitor and review actual and potential conflicts of interest. Within the

Investments Team, there is a standing agenda item within the weekly meetings for staff to disclose any potential conflicts they have identified, including within their engagement with investee companies.

#### **Gifts and Hospitality Policy**

The Society and WUTM have minimal appetite to either the offering or accepting of gifts and hospitality that do not enable or lead them to offering an enhanced quality of service to their customers. The policy ensures that the obligations leading from the Bribery Act 2010 are met, and to ensure transparency is maintained with regard to offers of gifts and hospitality. The policy defines the processes for the approval, acceptance / declining, recording and monitoring of offers of gifts and hospitality.

#### **Personal Account Dealing Policy**

Individuals working for the Society, may on occasion wish to buy or sell securities and/or derivatives for their own personal account. There is no intention to prohibit such dealings; however, it is recognised that certain members of staff may have access to privileged information obtained through shareholder engagement, or in some circumstances they may have access to such information from which they should not personally profit and which would give rise to a conflict of interest and impair their duty to act in the best interests of our customers. The policy seeks to ensure that any personal dealing activities do not conflict with the Society's and WUTM's duties to act in the best interests of our customers and describes how personal account dealing should be approved, documented, reviewed and monitored.

In addition, a Speak Out Policy is in place which defines the process staff can use to raise concerns on undisclosed conflicts of interest. All policies are reviewed and updated on an annual basis or as appropriate. Monitoring of compliance with the above policies is undertaken by the business and oversight provided by the Risk Team that produce a Conflicts of Interest Report for the Investment Committee.

### **3.8 Disclosures of Compliance with the Policy**

Compliance with this policy will be monitored on a regular basis and is subject to oversight by the Society's Risk Team, Investment Committee and WUTM Board. The Investments Team records its voting history, and an outcomes report will be reported on the Society's website on an annual basis and will include:

- A profile of how votes have been cast at investee general meetings, including votes cast against management resolutions; and
- Where a significant shareholding is held (be reference to size relative to the Society as a whole), an explanation of the rationale for votes cast against a management resolution.

## **APPENDIX A – Principles for Shareholder Engagement**

A framework has been developed by the Investments Team, which documents the key criteria for shareholder engagement and the resulting actions when concerns are identified. The framework has been developed in line with the following principles:

- The level and frequency of shareholder engagement is proportionate and tailored to the overall impact each shareholding has on a fund across a number of factors;
- Where material concerns are identified, such concerns are documented on the company electronic records;
- A process is in place, whereby actions are implemented to further investigate a concern and if necessary to escalate further within the Investments Team.
- Any material matters identified in the implementation of the policy, or material areas of non-compliance, will be reported to the Investment Committee; and
- Compliance with the policy will be monitored within the Investments Team and oversight provided by the Risk Team.

## **APPENDIX B – Corporate Governance and Voting Policy (extract)**

### **Shareholder voting**

Voting decisions are ultimately sanctioned by the investment manager acting on behalf of the policyholders or unit holders. The decisions are made based on the evidence provided by the company and management of that company. Third-party views are also considered.

The Society uses ISS Governance Services to provide proxy online voting services. ISS also provides third-party proxy research services separately that include voting recommendations for most companies held by the Society.

While the Society uses the corporate action research undertaken by a third-party research provider, it endeavours to make its own final decision in terms of individual voting instructions where any of the following conditions apply:

1. A material position, as defined by owning greater than 0.25 percent of the shares outstanding across all funds.
2. The meeting items contain unconventional, noteworthy or controversial content.
3. The meeting items are considered to be unacceptably breaching corporate best practice.
4. We have been specifically requested to do so by the company or their representatives. However, this does not automatically mean that we would vote in line with the Board recommendation.

Where the proxy vote does not meet the criteria defined above, we may rely on the research provided to us by the third-party research provider, and vote in line with their recommendations.

### **Shareholding Voting Exceptions**

#### **Registered shares**

Where the Society has registered shares that are not handled directly by a mainstream custodian, the proxy service provider may not provide full voting services. The Society may instead receive meeting materials and voting cards directly from the Issuer to vote directly.

Where this is the case the Society will review the administration obligation and the size of the holding to determine whether to complete the additional documentation.

#### **Share blocking**

In certain countries, shareholder voting requires 'share blocking', where shareholders that wish to vote in meetings are required to deposit their shares shortly before the date of the meeting (approximately one week) with a designated depository. During this period, the deposited shares cannot be sold until the meeting has taken place and the shares have been returned to the shareholders' custodian.

It is unusual for the Society to conclude that the benefits exceed the costs in most of these cases, and thus would elect to abstain from voting.

If share blocking applies, the proxy service provider has not been authorised to vote and will provide a "DO NOT VOTE" instruction across the entire ballot. This can then be manually overridden where required.



### **Referred Items**

Certain corporate event decisions will not be auto-voted as it is deemed to be a commercially sensitive or where the third-party research provider does not provide any recommendation. Typically, this will be true for our fixed income holdings.

By default, if no vote instruction is received from the Society prior to the proxy service provider's voting deadlines, the proxy service provider is instructed to vote these "Referred Items" as ABSTAIN.

### **Shareholder proposals**

The Society does not necessarily deem shareholder proposals to be sufficiently unconventional, noteworthy or controversial content even where third-party research providers suggest voting against management. In these circumstances, third-party research and recommendations will commonly be relied upon.