

M&G Investments Engagement Policy



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Introduction and scope

M&G believes that the long-term success of companies is supported by effective investor stewardship, high standards of corporate governance and transparent engagement policies. We believe that if a company is run well, it is more likely to be successful in the long run. M&G undertakes all investment stewardship engagements and proxy voting with the goal of protecting and enhancing the long-term value of client's assets. M&G is committed to being transparent about how we conduct investment stewardship activities in support of long-term sustainable performance for our clients.

M&G follows and is supportive of the UK Stewardship Code, the benchmark in the UK for institutional investors to meet ownership responsibilities in respect of their holdings. The Code is voluntary and operates on a comply-or-explain basis. The Financial Reporting Council, the independent regulator overseeing financial reporting, accounting & auditing and corporate governance, monitors compliance with the Code. For more information on M&G and the Stewardship Code, please see the applicable policy on our website <https://www.mandg.com/about-us/responsible-investment/policies-and-principles/>.

M&G's Corporate Finance and Stewardship team is an advocate of responsible share ownership and oversees our stewardship of the companies in which we invest. Active voting is an integral part of our investment approach, which is why we believe exercising our votes adds value and protects our client's interests as shareholders. For more information on M&G's voting, please see our voting policy <https://www.mandg.com/about-us/responsible-investment/policies-and-principles/>.

We extend these principles to both our UK and overseas-listed equity investments, taking into consideration relevant local differences, including regulations and legal frameworks, company structures and market practice. We also meet the requirements of the EFAMA Stewardship Code by adhering to the UK Stewardship Code, which applies to all EEA shares. Prioritisation of M&G's stewardship resources are based on a range of factors, including the materiality of the issue and the size of M&G's holding. Our focus will be on issues that are likely to be material to the value of the company's shares. As a general rule, where M&G's holding is a small fraction of the company's total capital, and a small fraction by value of a fund, there will be proportionately less resource applied to engagement (reflecting the reality that M&G's influence is less significant).

This policy sets out how we meet the requirements of the Shareholder Rights Directive and its scope covers all funds and portfolios managed, whether directly or via a delegation, by M&G Investment Management Limited and M&G Alternatives Investment Management Limited.

Integration of shareholder engagement

Stewardship activities such as monitoring and engaging with investee companies, as well as voting at shareholder meetings and reporting to clients, are undertaken by the investment teams, research analysts and members of our Corporate Finance & Stewardship team on an integrated basis. To ensure an integrated approach, regular investment meetings are held with investee companies (and meetings with potential investee companies), with representation from each team.

The initial investment decision to buy shares in a company is likely to include reviewing a company's published materials, brokers' research, meeting with directors and visiting company premises. The effort that goes in at the start of the investment process forms the base from which our stewardship activities build. We seek to fully understand our investments, their opportunities and risks.

We then monitor a company and continue open and purposeful dialogue with it throughout the holding period; this is outlined in further detail in the section below. M&G will proactively engage on any issue which may, potentially, affect a company's ability to deliver long-term sustainable performance and value. When companies consistently fail to achieve our reasonable expectations, we will actively promote changes. These changes might range from the formulation of a new strategy to the appointment of new directors.

Further details are given below and can be found on our website in the M&G and the Stewardship Code document <https://www.mandg.com/about-us/responsible-investment/policies-and-principles/>

Monitoring of conduct

Regular and proactive monitoring, including open and purposeful dialogue with investee companies, enables us to determine whether the board is fulfilling its mandate to shareholders and, ultimately, whether an investment remains appropriate. This monitoring process typically includes:

- Arranging regular meetings with executive management, the chairman and/or other non-executive directors
- Daily monitoring of company announcements
- Reviewing company results (annual & interim)
- Reviewing external research materials (e.g. broker research reports)
- Attending company capital markets days for investors and site visits
- Attending broker meetings to discuss investment recommendations
- Engaging in specific discussions with companies on material topics, including: strategy, performance and non-financial matters (such as environmental, social and corporate governance factors; capital structures; board performance and understanding how boards are fulfilling their responsibilities; succession planning; remuneration; and culture)
- Attending company engagement/corporate governance meetings (arranged by companies to enhance the engagement process and provide a forum for governance and responsible investment subjects to be discussed)
- Meetings with remuneration committee chairman (in particular where the company is reviewing its remuneration policy, or prior to general meetings where sensitive or contentious resolutions are being put to shareholders to vote on)
- Corresponding with non-executive directors in instances where issues have been raised with management, but where progress on these issues is inadequate
- Maintaining a record of all interactions with companies

Company boards must consistently satisfy customers, shareholders and the reasonable expectations of employees, as well as acting responsibly towards society as a whole, in order to ensure success over the long term.

We expect the boards of our investee companies to comply with the Corporate Governance Code or its equivalent in the relevant jurisdiction and with the spirit of them too. It is incumbent on a company to explain the rationale for diverging from the Code's (or its equivalent) principles and, subject to this explanation, we will determine the appropriateness of the divergence on a case-by-case basis.

On occasion, we may support resolutions that are not compliant with the appropriate code – which we believe are the right courses of action for the given circumstances or which progress towards compliance – after discussion with the company on the specifics.

Dialogue with investee companies and other stakeholders

M&G seeks close dialogue with its investee companies and is prepared to become an insider in order to facilitate dialogue on price sensitive matters such as transactions, capital raisings, takeovers and changes in management. Appropriate procedures are in place to manage such information.

M&G will engage on any issue that may potentially affect a company's ability to deliver long-term sustainable performance and value to our clients. Issues may include, but are not limited to:

- Business strategy
- Performance
- Financing and capital allocation
- Governance
- Risk
- Management and employees
- Acquisitions and disposals
- Operations
- Internal controls
- Membership and organisation of governing structures and committees
- Sustainability
- Remuneration policy, structures and outcomes

- Culture
- Environmental and social responsibility
- Quality of disclosure

The approach taken by our investment team and Corporate Finance & Stewardship team will be issue-specific. Methods of engagement include, but are not limited to:

- Letters and emails to companies and relevant stakeholders
- Meetings and/or calls with senior management or relevant company stakeholders
- Visits to operations
- Visits to suppliers from the company's supply chain
- Participation in roadshows

Wherever possible, we seek to achieve our objectives by agreement and in a confidential manner, but may be prepared to publicise issues by taking them to the national press or support the requisition of a meeting, or requisition a meeting ourselves, to enable shareholders as a whole to vote on matters in dispute.

The prioritisation of M&G's resources are based on a range of factors, including the materiality of an issue and the size of M&G's holding. Our focus will be on issues that are likely to be material to the value of the company's shares. As a general rule, where M&G's holding is a small fraction of the company's total capital, and a small fraction by value of a fund, there will be proportionately less resource applied to engagement (reflecting the reality that M&G's influence is less significant).

We would always seek to discuss any contentious issues before casting our vote, in order to ensure that our objectives are understood. We monitor progress of engagements against identified objectives on a periodic basis. To M&G, confrontation with boards at shareholder meetings represents a failure of corporate governance.

Escalation is normally conducted by the investment team alongside the Corporate Finance & Stewardship team, and may involve meeting with the company's chairman and/or senior independent director, the executive team, other shareholders and/or company advisers. In a limited number of cases, it may be appropriate for the chief executive officer or the chief investment officer of M&G Investments to be involved.

We believe company boards must consistently satisfy customers, shareholders and the reasonable expectations of employees, as well as acting responsibly towards society as a whole, in order to ensure success over the long term. Focused intervention will generally begin with a process of enhancing our understanding of the company's position and communicating our position to the company. This might include initiating discussions with the chairman and/or the company's advisers. We may also speak to senior independent directors or other non-executive directors and other shareholders. The extent to which we might expect change will vary, depending on the nature of the issue. In any event, we expect companies to respond to our enquiries directly and in a timely manner.

M&G also regularly engages with other stakeholders including trade bodies, policymakers and NGO's such as BEIS, FCA, FRC, Investment Association, PRI, IIGCC, UKSIF, EFAMA, Investor Forum, ICGN, Share Action et al. These interactions follow the same procedure and use many of the same methods as our interactions with companies. As such they are logged and tracked by the Corporate Finance & Stewardship team. We may engage with policy makers or NGO's for a variety of reasons, for instance to increase our understanding or to influence and feed into the legislative landscape as a responsible investor.

Exercise of voting rights and other rights

As mentioned, an active and informed voting policy is an integral part of our investment philosophy. In our view, voting should never be divorced from the underlying investment management activity. By exercising our votes, we seek both to add value to our clients and to protect our interests as shareholders. We consider the issues, meet management if necessary, and vote accordingly.

We aim to vote on all resolutions at general meetings of companies held in M&G's actively managed portfolios, as well as our UK passive holdings.¹ Typically, M&G votes by proxy at general meetings, but on occasion we will attend a general meeting where our clients' interests are best served by us doing so.

When considering resolutions we look to support management, but the ultimate decision will be determined by an assessment of the impact on our investments and the long-term interests of our clients. In determining our vote, a number of factors will be taken into consideration including our voting policy, company specific information and the extent to which we have been able to obtain any additional information required to make an informed decision.

We will vote against proposals that compromise our clients' interests. We may not vote in favour of resolutions where we are unable to make an informed decision on the resolution because of poor quality disclosure, or due to an unsatisfactory response to questions raised on specific issues. We would always seek to discuss any contentious resolutions with company management before casting our votes, in order to ensure that our objectives are understood. However, we consider it unnecessary to inform investee companies ahead of meetings of routine capital management resolutions that we typically oppose, as our position is clearly disclosed. We disclose our complete voting record quarterly on our website, allowing any other stakeholders the opportunity to see our rationale <https://www.mandg.com/about-us/responsible-investment/policies-and-principles/>.

Any shares on loan may be recalled whenever there is a vote on any issue affecting the value of shares held, or any issue deemed to be material to the interests of our clients.

Our preference is to either vote 'For' a resolution or 'Against' it. On some occasions, where we have concerns and/or information is lacking, we may 'Abstain'. Investee company policies, arrangements and disclosures that fall short of our voting guidelines and the standards of the local market will typically be voted against. Policies, arrangements and disclosures that fall short of our voting policies, but which reflect usual practice in the local market, will typically be supported. We may abstain on proposals that do not meet our expectations but where the company has made changes or has promised changes that significantly improve the position; or where we have not had sufficient opportunity to discuss our concerns.

Further information, including our voting stance on a range of issues, can be found in the M&G Voting Policy on our website <https://www.mandg.com/about-us/responsible-investment/policies-and-principles/>. We disclose our voting records on our website on a quarterly basis.

With regards to other shareholder rights, M&G may nominate or appoint new directors as a method of escalation following other unsuccessful engagement methods where a company has consistently failed to achieve our reasonable expectations.

As detailed above, attending shareholder meetings and access to management are key ways in which we at M&G both monitor and engage with our investee companies.

Shareholder cooperation

M&G is willing to act collectively with other UK and overseas investors where it is in the interests of our clients to do so. We endeavour to maintain good relationships with other institutional investors and support collaborative engagements organised by representative bodies and others. M&G is a member of the Investment Association, with a large number of M&G representatives actively participating on a range of Investment Association committees. We participate in the Investor Forum, which was set up to increase proactive collective engagement.

A range of factors are considered in deciding whether or not to collectively act with other shareholders including, but not limited to:

- Whether we can be more effective in our engagement unilaterally or collectively
- The extent to which the objectives of other investors are aligned with our own, and
- The potential sensitivity of the issue and the extent to which conversations with the company are confidential

¹ However, a fund may refrain from voting some or all of its shares if doing so is in the interest of the fund, e.g. if exercising the vote would result in the imposition of trading restrictions ('blocking').

In addition, members of the Corporate Finance & Stewardship team participate on a range of external formal and informal committees related to broader shareholder issues.

Conflicts of interest

It is a fundamental requirement for a financial services firm such as M&G to act in the best interests of its clients and/or its beneficiaries, and identify and manage conflicts of interest. This is central to our duty of care. Accordingly, it is important for our clients to know that M&G will take appropriate steps to identify conflicts, manage them effectively and treat our clients fairly.

M&G has a comprehensive Conflicts of Interest Policy, which reflects both the nature of our business activities and our ownership structure (including any potential conflicts arising from our ownership by Prudential plc). This is available on our website <https://www.mandg.com/about-us/responsible-investment/policies-and-principles/>

M&G staff are required to complete annual mandatory conflicts of interest training to ensure they understand all conflicts of interest that arise by virtue of the roles they perform, and are aware of the process for identifying and reporting conflicts so that they can be managed in an appropriate manner. The M&G Conflicts of Interest Disclosure Statement can be found on our website <https://www.mandg.com/about-us/responsible-investment/policies-and-principles/>.

In identifying the conflicts of interest that may arise when providing services to our clients, M&G will take into account the following:

- a) Whether any M&G entity is likely to make a financial gain, or avoid a financial loss, at a client's expense (firm versus client conflict)
- b) Whether a client is disadvantaged or makes a loss when an employee or other person connected to an M&G entity makes a gain (individual versus client conflict)
- c) Whether a client makes a gain or avoids a loss where another client makes a loss or is disadvantaged (client versus client conflict)
- d) Whether an M&G entity, employee or fund benefits at the expense of another M&G entity or fund (intra group conflict)

Conflicts that arise from personal activities of employees (for example, outside appointments, involvement in public affairs, personal political donations and personal investments) are also closely monitored and managed.

On occasion, we may encounter conflicts of interest related to our stewardship activities. It is incumbent on all investment professionals and members of the Corporate Finance & Stewardship team to identify and manage such conflicts, in line with the wider M&G Group Conflicts of Interest Policy. In all such instances, our objective is to ensure that these conflicts are identified and managed appropriately, to ensure our clients' best interests are served.

In each case, where a conflict arises, the conflict is identified and reported in line with the wider M&G Group Conflicts of Interest Policy, and an appropriate plan for mitigating the conflict is agreed. This might include referring the matter to the M&G Conflicts of Interest Committee for deliberation.

As mentioned previously, please see the Conflicts of Interest Disclosure Statement on our website for further information. <https://www.mandg.com/about-us/responsible-investment/policies-and-principles/>