

Guidelines for engagement and exercise of voting rights

Last updated: September 2020

Background

Arctic Asset Management AS (AAM) is a securities company with a licence for, among other things, portfolio management. AAM manages mutual funds for Arctic Funds Plc in Ireland and other discretionary mandates. Through their investments the portfolios become owners or creditors in various companies and can thus exercise influence over the companies' businesses.

These guidelines describe how AAM, on behalf of portfolios where the mandates give AM discretionary authority to vote on behalf of the portfolios, will exercise such influence. The guidelines have been prepared in accordance with the Norwegian Fund and Asset Management Association's industry recommendations on engagement, the EFAMA (European Fund and Asset Management Association) Code for external governance, the EU's shareholders' rights regulation and the UN supported Principles for Responsible Investment (UN PRI).

Overall goal

AAM's overall goal is to engage in such a way that it contributes to the owners of portfolios managed by AAM achieving the best possible risk-adjusted return.

Engagement objective

The manner in which a company is managed is relevant to the company's valuation, both because corporate governance affects the extent to which the company is able to achieve its goals and because poor corporate governance can weaken confidence in the company. An assessment of how a company is managed is included in the portfolio managers' investment process, both prior to the investment and during the ownership period.

It may be appropriate to engage in several areas, including:

- The company's strategy and results
- Traditional corporate governance, including board composition, elections, remuneration, dividend policy
- Corporate social responsibility and ESG issues
- The company's risk management

When investing in interest-bearing securities the portfolios become creditors of the company. The creditors may have certain rights related to their position, for example the right to repayment of the debt, the right to mortgage security, the right to commence bankruptcy proceedings and the right to oppose certain corporate actions. The rights may follow from a loan agreement or from regulations.

The objective when exercising creditor rights is to contribute to the owners of the portfolios managed by AAM achieving the best possible risk-adjusted return. Creditor rights will be exercised for the benefit of the individual fund and mandate, and in accordance with the interests of the portfolio owners.

AAM's overall obligation is to protect the interests of the portfolio owners and it may therefore choose to sell a position rather than attempt to influence the situation through engagement.

Definitions

- **Corporate Governance**
Corporate governance mainly deals with the mechanisms regulating the triangle between the owners, the board and the management of a company.
- **Voting right**
A voting right refers to the possibility of voting in general meetings of a company. As a general rule, in limited companies for each share owned shareholders have one vote in the general meetings, that take important decisions on behalf of the company.
- **UN PRI**
UN supported Principles for Responsible Investment - UN PRI is a network of international investors that work together for the adoption of six principles with respect to responsible investment. As a firm that has acceded to UN PRI, we undertake to include the principles in the investment process in relation to companies' treatment of environmental, social and governance issues (ESG).

Engagement and escalation

AAM can engage in various ways, ranging from an informal dialogue with the board or company management to voting in the general meeting. How such engagement is exercised in the specific case will depend on the investment's size, the nature of the issue and its importance. An assessment is also made as to how resources can best be employed to give the owners of portfolios managed by AAM the best possible risk-adjusted return.

1.1. Monitoring companies

The portfolio managers evaluate the portfolios' investments on an ongoing basis. This includes an ongoing assessment of relevant news and company announcements, sector events, updating of internal analysis, and ongoing dialogue with the companies. As part of this the companies' corporate governance is followed, both with respect to results and whether it is effectively organised. The portfolio managers' fundamental approach covers the companies' qualitative and quantitative development of risk, including financial developments, capital structure, ESG and management.

1.2 Prioritisation within engagement

As previously referred to, the overall objective of engagement is to contribute to the best possible risk-adjusted return for the portfolio owners. This governs the managers'

prioritisation within engagement. It follows that the portfolio managers will give priority to the large positions that are most important for the portfolio's overall return. It also follows that the portfolio managers will give priority to engagement in the cases that can contribute most to the company's long-term return. This is the case for both individual engagement and engagement in corporation with other investors.

1.3. Dialogue with companies and other stakeholders

An ongoing dialogue with companies should contribute to securing the best possible development in the portfolios' investments, and thus the best possible risk-adjusted return.

AAM will evaluate a dialogue with companies in the following situations:

- The company's strategy or results diverge from what was previously communicated.
- A proposal is presented on replacement of board members, share issues, dividend policy or remuneration of senior management.
- There are matters relating to the company's business that are not in accordance with AAM's ethical guidelines.
- There are matters relating to the company's business management that are in conflict with AAM's objective of the best risk-adjusted return.

Dialogue with the companies may take place by expressing AAM's views, in writing or Orally, to the company's management, advisors, board or similar.

The portfolio managers have objectives in their individual engagement. By defining specific objectives engagement is better directed towards specific objectives or identified KPIs.

AAM may also, when relevant, communicate with other stakeholders in the companies. Any dialogue with other stakeholders is to contribute to the best possible risk-adjusted return for the portfolios.

1.4 Escalation within engagement

If the dialogue does not satisfy AAM's expectations, AAM may evaluate whether to implement other engagement measures, for example:

- Expressing its views publicly
- Voting at a general meeting
- Proposing a resolution at a general meeting
- Proposing an extraordinary general meeting
- Adjusting its score on the internal scorecard for the company
- Selling shares or adjusting the portfolio weighting

1.5 Cooperation with other investors

AAM may engage in cooperation with other investors where this is considered to be in the interests of the owners of portfolios managed by AAM. When cooperating with other investors to exercise influence over companies, AAM will take special note of the danger of conflicts of interest arising and being placed in an insider position.

1.6 Conflicts of interest in engagement

Funds and mandates may invest in the same share so that several portfolios may hold ownership positions in the same company. Conflicts of interest in engagement between different funds and mandates managed by AAM will be avoided. In the event of a potential conflict between different interests, the investment director will take the final decisions related to the portfolios' engagement.

When cooperating with other investors on dialogue and engagement, AAM will take special note of the danger of conflicts of interest.

Exercise of voting rights

2.1. Objective

Through their investments the portfolios managed by AAM will normally have voting rights in the companies. Voting rights will be exercised by AAM on behalf of the portfolios where the mandates give AAM discretionary authority to vote on behalf of the portfolios. The objective in exercising voting rights is to give the owners of portfolios managed by AAM the best possible risk-adjusted return.

2.2. When and how voting rights will be exercised

Voting rights will be exercised for the benefit of the relevant portfolios with the aim of providing the owners of the portfolios with the best possible risk-adjusted return. The portfolio manager evaluates when and how voting rights will be exercised. The portfolio manager studies the matters to be considered at the general meeting and decides how to vote. Voting rights are exercised either directly by AAM or through AAM issuing an authorisation with instructions to a third-party, often a custodian bank, to exercise the voting rights on the portfolios' behalf.

AAM has no portfolios with specific mandates that can affect the exercise of voting rights, such as for example an environment fund, activist fund or ethical fund. Each time AAM is to evaluate whether to vote for or against a proposal, or to abstain from voting, consideration must be given to whether the proposal will increase the long-term potential return from the shares issued by the company.

2.3. Escalation after voting

If voting does achieve a successful outcome, AAM may evaluate whether to implement other measures, for example:

- Maintaining contact with other shareholders in order to win future votes or change the company's standpoint
- Proposing a resolution at future general meetings
- Adjusting its score on the internal scorecard for the company
- Selling shares or adjusting the portfolio weighting

2.4 Following up relevant corporate actions

AAM monitors relevant corporate actions in its day-to-day management of the portfolios where the mandates give AAM discretionary authority to vote on behalf of the portfolios.

AAM has access to an electronic service for voting, which also gives warnings about notices convening general meetings and provides extensive information on the companies. Each mutual fund has a custodian. A custodian is a credit institution with a licence from the local supervisory authorities to act as a custodian. Among other functions, a custodian is to hold the mutual fund's assets or have them registered on accounts in a securities registry. A custodian also provides information about and administers corporate actions such as dividends, subscription rights, issues, demergers, mergers and general meetings.

2.5. Conflicts of interest in the exercise of voting rights

Funds and mandates may invest in the same shares so that several portfolios may hold ownership positions in the same company. Conflicts of interest in engagement between different funds and mandates managed by AAM will be avoided. In the event of a potential conflict between different interests, the investment director will take the final decisions related to the portfolios' engagement. AAM's portfolio managers are subject to strict rules with respect to investment in financial instruments for their own account. Portfolio managers are not obliged to sell all the financial instruments that they previously held. In cases where a portfolio manager has invested for his/her own account in a company where he/she is to exercise voting rights for a portfolio, he/she is to contact the managing director to determine the extent to which he/she may also exercise voting rights on behalf of the portfolio. The board has authorised the managing director to determine matters where there are conflicting interests. If the managing director has conflicting interests with the portfolio, the matter is to be decided by the board.

2.6. Relationship to inside information

In order to be able to evaluate any management challenges that companies may face AAM is dependent on access to information about the company. At the same time, it is important to retain freedom of manoeuvre with regard to the investments so that one can act in the best interests of portfolio owners. AAM will evaluate consciously information received by reference to the rules on inside information, and also in relation to engagement with companies.

It is expected that the companies and their advisors will also have a conscious approach to these rules and will not put AAM in an insider position without consent. In the case of doubt clarification is to be obtained as far as possible from the provider before the information is received as to whether the relevant information is inside information.