

Stewardship Code

and

Shareholders Rights Directive II

Sector Investment Managers Limited's approach to its responsibility as an Institutional Shareholder

Our Policy

The Financial Reporting Council (FRC) in July 2010 produced the “The UK Stewardship Code”(The Code) and the Financial Services Authority (FSA) has incorporated a requirement to disclose The Code in COBS 2.2.3 with effect from 6th December 2010 on the firm’s website. This document sets Sector Investment Managers Ltd’s (SIM’s) approach to discharging its obligations in regard to its stewardship responsibilities as required by Principle 1 of The Code. In addition, the Shareholders’ Rights Directive (SRD II) effective from 10th June 2019 (COBS 2.2B.5) requires that Sector Investment Managers Ltd publicly discloses a clear and reasoned explanation of why it has chosen not to comply with the requirements of this directive on “engagement policy”.

SIM’s investment process is structured so that we invest in companies that are well managed with high standards of corporate governance and a sound management team.

It is SIM’s policy to engage actively with the management of investee companies in a transparent manner and effectively monitor their performance. We believe that focusing on companies with the strongest governance can help mitigate risk and result in superior long-term investment performance.

However, whilst our engagement activities are in scope of SRD II, we have taken the decision to opt out due to the complexity in establishing clear ESG ratings with reference to independently verified and published data relating to industries engaged in the extraction of natural resources. Our investment activities incorporate a rigorous evaluation process which pays attention to many criteria, including ESG. An analysis of the prospective investee company’s Environmental (“E”) Social (“S”) and Governance (“G”) standards is a key criterion in our process. Governance (“G”) is the first and most important criterion in our consideration. We believe that companies with reputable, experienced, varied and aligned management are better equipped to deal with issues affecting the environment (“E”) and all their stakeholders (“S”). With regard to environmental consciousness, notwithstanding the fact that mining and resource extraction is typically a business with high intensity of energy

and materials usage, we encourage companies to adopt the most efficient methods and processes and support renewable energy generation and reduction of waste. Our core criterion of avoiding exposure to politically unstable regions and, therefore, concentrating on those territories where there is strong rule of law and social accountability ensures that high standards of environmental impact assessment are followed throughout the cycle of operations, from exploration through to production of resources. In our assessments we aim to ensure that social responsibility has high importance in the governance of our holdings. Again, by ensuring underlying operations are in politically stable territories we believe that stakeholders have a stronger voice and their interests are better supported. We believe that any business needs the support of all its stakeholders to survive and prosper over the longer term.

SIM reports on its engagement to its clients either in writing or in formal meetings.

Conflicts of Interest

Principle 2 of the Code requires that institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

It is SIM's policy to avoid conflicts of interest wherever possible. In the event that a conflict arises it will be disclosed to our clients and a course of action will be agreed with the client. Conflicts are managed on a case by case basis.

A copy of SIM's full Conflicts of Interest Policy is available upon request.

Monitoring Performance

Principle 3 of the Code requires that institutional investors should monitor the investee companies.

The Investment Team monitors the share price of investee companies on a daily basis. In addition the Team monitors market announcements including Annual Reports and other circulars and general meeting resolutions. The result of this monitoring process is brought to the attention of the Investment Committee. Prior to investment the Investment Team meets with management and following results the Team meets with management or the investment relations department of larger companies and more often if necessary.

Principle 4 of the Code requires that institutional investors should establish clear guidelines of when and how to escalate their activities as a method of protecting and enhancing shareholder value.

The Investment Committee monitors the corporate governance of investee companies.

The Committee determines whether or not action needs to be taken:

- If the company's strategy has changed
- If the company's strategy is not working

In these cases SIM would normally sell its investment.

Annual and interim accounts are analysed by the Investment Team and any points of concern are brought to the attention of the Fund Manager and/or the Investment Committee.

Meetings are scheduled with the management of investee companies at least twice a year following preliminary and interim announcements. Further meetings are held if and when necessary.

Intervening when necessary

Principle 5 of the Code requires that institutional investors should be willing to act collectively with other investors where appropriate.

SIM's primary duty to clients is to act in their best financial interests. We protect our clients' interests by effectively monitoring companies, meeting with management and having a proactive approach to voting. SIM is prepared to engage and collaborate with other institutional investors if SIM believes that it will lead to a more positive outcome.

Voting Policy

Principle 6 of the Code requires that institutional investors should have a clear policy on voting and disclosure of voting activity.

Generally, SIM has a policy to vote by proxy at all general and extraordinary meetings of companies where it is invested. Where the matter is particularly contentious, a SIM representative may be present. It does not delegate voting to any third party.

The matters to be voted on are assessed for each meeting. There may be times when SIM will vote against resolutions.

Broadly, SIM follows a policy of limiting the amount of stock directors can issue without shareholder consent to 5%.

SIM will usually vote in favour of company management except in cases where it feels that a company is not acting in the best interests of its shareholders. In these cases, SIM will either abstain or vote against resolutions.

SIM encourages executive remuneration policies that align directors' and shareholders' interests. We pay particular attention to schemes that create excessive equity dilution.

SIM pays particular attention to acquisitions and disposals. We are prepared to vote against value destructive acquisitions or disposals if necessary.

SIM does not support the funding of political parties or organisations.

There are times when engagement with management fails and at this stage it would normally be SIM's policy to sell the investment. However SIM is prepared to intervene actively by changing management either through the Chairman or the Senior Non Executive Director or as a last resort by calling an EGM. The latter is likely to happen only in extreme cases.

Evaluating and Reporting

Principle 7 of the Code requires that Institutional Investors should report periodically on their stewardship and voting activities.

The Investment Committee assesses the effectiveness of engagement with management.

SIM maintains records of all its voting and engagement. SIM reports to its clients on its voting activity upon request.

Socially Responsible Investment Policy

Our policy is to invest in companies based on criteria of strategy, financial and non-financial performance and risk, social and environmental impact and corporate governance.

Class Actions

SIM's policy on class actions is to review cases as they arise and discuss with our clients the merits of participating in the action. Once this dialogue has taken place an appropriate strategy is put together.