Pacific Capital Partners Limited

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UK Stewardship Code

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UK Stewardship Code

1. Introduction to the UK Stewardship Code

The UK Stewardship Code 2020 came into effect on 1 January 2020 and is published by the independent regulator, the Financial Reporting Council (FRC). It sets out 12 principles of good stewardship practice for institutional investors (asset owners, asset managers and service providers).

Its aim is to encourage active engagement between investors and the companies they invest in that ensures both act in the best interests of the ultimate beneficiaries (i.e. shareholders). This is Pacific Capital Partners Limited's (the Firm or PCP) response to the Financial Reporting Council's UK Stewardship Code 2020.

This document describes our approach to investing and how we believe that our approach incorporates each of the 12 principles of good stewardship.

2. FCA Regulation

Firms are required under the FCA COBS to disclose on their website the nature of their commitment to the Code or, where they do not commit to the Code, their alternative investment strategy (COBS 2.2.3R).

3. Application of Principles

Principle 1: Purpose, strategy and culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that can create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

PCP is an independent, innovative, next generation asset management business that seeks to leverage developments in technology to distribute its suit of active single managers and blended multi asset funds. PAM's highly experienced teams manage investments on behalf of institutions, wealth managers, family offices and financial advisers.

PCP believes its long term future is aligned with that of its clients, and consequently it treats its relationship with its clients as a partnership.

Our stewardship responsibilities are a key component of this relationship. Central to our business' long term future lies a high standard of internal and external stewardship. We pride ourselves on our rigorous detail-oriented investment approach, which aims to achieve superior risk-adjusted returns for our clients while retaining a strong focus on capital preservation.

Our long term focus is competitive advantage, and this encourages an emphasis on retaining and developing our staff, offering benefits and policies which support their wellbeing, career development and promote equality across PCP. By seeking to be a responsible employer we aim to achieve below-market staff turnover, thus providing continuity of experience across the firm.

Investment process & ESG

The Firm believes that the best people to understand the future impact of ESG on a company are those that analyse the businesses: the portfolio managers. As such, each investment team adopts their own approach to integrating ESG factors into their investment process.

The Firm believes that in order for someone to truly understand the sustainable characteristics of a company they must also truly understand its financial characteristics, and we therefore do not delineate between sustainable and financial analysts within the business. Each Pacific team has spent years developing their investment approach and understand what characteristics are important to driving the long term returns PCP aims to deliver to investors. The Firm has been working to provide each team with the information and support to allow them to integrate ESG in the optimal way, ensuring their processes are enhanced and complemented by this work rather than imposing a centralised solution.

The framework aims to challenge and support the Firm's portfolio managers, helping to integrate and enhance stewardship and the management of sustainability risk for all its clients.

Each team is truly active and takes a long-term approach to investment. This creates a deep understanding of the companies they invest in and promotes good governance and stewardship. PCP does not impose a one-size-fits-all approach to integrating stewardship and ESG risk into investment processes but instead work closely with all the investment teams to help ensure the best outcome for all. Some strategies do have an overriding sustainability and ESG focus and / or contain exclusion-based approaches.

For other strategies, in theory the investment teams could invest in any business, sector or geography as long as the businesses meet the criteria laid out in their investment processes and the ESG risks of such investments are identified and taken into account. However, by including ESG considerations into all of the Firm's investment processes, it improves the Firm's ability to understand a business and its ability to create, sustain and protect value with the aim of ensuring it can deliver outcomes in line with the Firm's clients' expectations.

Some funds use an investment approach that applies ESG or sustainability-based exclusions automatically, whilst others have the ability to invest in opportunities that may not be complying with these international standards of conduct.

Serving our clients and beneficiaries

We believe transparency with regard to our funds' objectives, performance and construction is a crucial part of our relationship with, and responsibility and accountability to, our clients. We seek to achieve this through face-to-face meetings as well as multiple forms of media engagements including monthly factsheets, investor roadshows, investor group updates, an annual conference, website content, whitepapers and blogs.

We believe our clients should always be kept informed of the products they hold and our general market opinions. This in turn will not only help increase their understanding but should assist in more informed decision making.

From an ESG perspective, we have hosted live demonstrations for clients of the system we use, which creates better understanding of the ESG factors we consider and in particular how momentum often affects how we view companies rather than simply purely relying on data.

Principle 2: Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship

We believe strong corporate governance structures and processes start with ourselves and this has played an important role in encouraging the high standards of corporate governance that have underpinned the Firm's history of success. These governance principles remain in place to ensure our future growth.

Structure

The Firm's board of directors manages the overarching business strategy for the Firm and while the ultimate responsibility remains with the Board, the day-to-day governance and management has been delegated to the Executive Committee (ExCo).

To help ensure greater oversight of the issues facing the business and the decision making processes that underpin our business, ExCo has created an Investment Committee, Responsible Investment Committee, Risk & Compliance Committee and a Product Governance Committee with at least one member of ExCo generally sitting on each of the underlying committees that report into it. We believe having presence on these committees as well as direct reporting lines into ExCo greatly improves the transparency and accountability of the committees.

Policies, systems, controls and resource within the Firm, and in particular the membership of each reporting committee, are monitored closely by ExCo with minutes of the meetings presented to them and any change in Terms of Reference for one of the reporting committees having to be approved by ExCo in advance of implementation.

As the Firm has expanded in size and taken on more staff, the membership of the reporting committees has tended to expand as a consequence, given the desire for as broad an input as possible across the Firm within the parameters of that specific committee. Members of the committees are empowered and encouraged to bring challenge and are chosen for their complementary expertise. Having the flexibility to amend the Terms of Reference of a committee, or indeed to create a new one as deemed appropriate, with immediate effect helps to ensure a quick identification and response to the various issues that face an asset management company in the current and future climates.

Most recently the Firm created the Responsible Investment Committee (RIC) chaired by the Chief Sustainability Officer, which reports on the Firm's progress to ExCo and the PCP board of directors on a quarterly basis.

The Committee's responsibilities include:

- Reviewing the Firm's responsible investment policy framework – including its Responsible Investment Policy, Proxy Voting Policy and Engagement Policy.
- Supporting ESG integration – driving continuous improvement in ESG data, tools and analysis
- Oversight of ESG related risk within the portfolios
- Compliance with ESG regulation
- Approval of PRI submissions
- Supporting engagement – both directly and via collaborative investor initiatives across equities and multi-asset classes
- Sharing and building knowledge – sharing relevant research, analysis and insights on sustainability themes and trends
- Monitoring progress with a focus on innovation and continual improvement
- Managing the group's sustainability reporting

Principle 3: Conflict of interest

Signatories manage conflicts of interest to put the best interest of clients and beneficiaries first.

PCP recognises situations can occur that would lead to concerns over possible conflicts of interest, either with ourselves, with our clients or between clients via the portfolios we manage.

PCP is committed to identifying, preventing and, where prevention is not possible, managing conflicts of interest to the maximum extent possible at all times. The Compliance function maintains a formal Conflicts of Interest Policy and a Conflicts Register.

PCP's Conflicts of Interest Policy is publicly available on our website. The policy sets out guiding principles on how we manage conflicts of interest, including those related to stewardship, as well as describing how we manage specific conflicts that are particularly relevant to our business. This also extends to the personal activities of staff members outside of the Firm, for example through disclosing to the Firm's Compliance Officer any outside business interests such as directorships, involvement in public office or public affairs and trusteeships. Those too can then be assessed for conflicts of interest, or potential conflicts of interest, and appropriate action taken. If an identified conflict cannot be managed appropriately the staff member will typically be asked to terminate the conflict by stepping down from that outside business interest, and/or the client is notified of its existence.

As set out in the Conflicts of Interest Policy, PCP recognises the provision of investment management services to our clients could potentially give rise to situations where a conflict does arise. Accordingly, PCP has put in place measures, some of which are set out in further detail below, to ensure that the Firm, and where applicable its staff members, must not place its own interests unfairly above those of its clients.

Senior management within PCP are responsible for ensuring that systems, controls and procedures are adequate to identify and manage conflicts of interest. PCP's Compliance department assists in the identification and monitoring of actual and potential conflicts of interest, and reports on this to the Firm's Risk and Compliance Committee on a monthly basis.

Where conflicts, or potential conflicts, are identified PCP is committed to ensuring that they are effectively and fairly managed so as to prevent these conflicts from constituting or giving rise to a material risk of damage to the interests of clients. PCP's Conflict of Interest Policy discusses the processes and guiding principles used to reduce the risk of these events arising, and where this cannot be prevented, how PCP then resolves or manages these risks. The Policy also includes PCP maintaining conflict management procedures to mitigate potential conflicts. Where it is not possible to prevent actual conflicts of interest from arising, and those that have arisen to be resolved, PCP will use best endeavours to manage the conflicts of interest by, among other things:

- Treating clients equally where possible;
- Disclosure to the client;
- Establishing an information barrier; or
- Declining to provide the service.

The below conflicts have been identified to specifically relate to our stewardship responsibilities, details of the safeguards PCP has put in place to manage these potential conflicts are set out in the Firm's Conflicts of Interest Policy but can be summarised as follows:

Proxy Voting - PCP has in place a Proxy Voting Policy which sets out that when voting proxies or acting with respect to corporate actions for investments we manage for clients, PCP's utmost concern is that all decisions are made solely in the best interest of the client and the Firm will act in a prudent and diligent manner intended to enhance the economic value of the assets of the client's account.

Personal Account Dealing - Where a staff member or their connected party wishes to trade in an affected security (as defined in the policy but includes trading in funds PCP manages and securities those funds could trade in) they must first request consent from PCP's Compliance function setting out details such as the security, the quantity and the rationale for the trade where trading in PCP-managed funds. PCP's Compliance function will then assess if any conflict of interest is present including by liaising with portfolio managers to assess whether the request could have a negative impact on the funds/accounts we manage. If approved, the trade will normally need to be instructed within 48 hours unless agreed otherwise in advance. Should the trade not be instructed within the agreed time, a new request would need to be sought. PCP's Compliance function maintains a record of all requested trades.

Client Order Handling - PCP is required by regulation to put in place arrangements to enable it to deliver best execution for its clients, and that this is adhered to by all staff members permitted to place client orders. Details of how this is applied are set out in PCP's Order Execution Policy and are publicly available on our website. It is PCP's policy, therefore, to have a process which ensures every client order is treated in a way that aims to maximise the chance of getting the best set of results when trading. To ensure this is being met, PCP's Compliance function performs monthly monitoring of a sample of trades [which will be no less than 10% of those executed], and in doing so will review the process, the terms of execution and the rationale. Where a trade appears not to have been executed at the best price or the rationale does not align with the portfolio's investment objective, the Compliance function will request further explanation from the relevant portfolio management team. Any anomalies after such explanation are raised through the Risk & Compliance Committee.

Allocation and Aggregation of Trades - PCP's allocation, placement and aggregation of trades is governed by its Aggregation & Allocation Policy, which requires all investment opportunities to be allocated on a basis believed to be fair and equitable; no portfolio will receive preferential treatment over any other. At all times PCP aims to:

i. act in the client's best interests;
ii. act in accordance with the client's instruction if specified;
iii. treat client orders and subsequent executions fairly and in due turn with other client orders;
iv. PCP does not trade accounts for itself; and
v. meet its obligations to the maintenance of orderly markets.

To do this the portfolio management team will take steps to ensure that no client portfolio will be systematically disadvantaged by the aggregation, placement, or allocation of trades with the prime determinants being the portfolio's market and credit exposure, its asset class/sector exposure, cash availability, liquidity, and with regard to the suitability of such investments to each portfolio.

Managing of Insider and/or Confidential Information Management - All staff members are strictly prohibited from engaging in insider dealing and regular training is provided to all staff members to reinforce their knowledge and understanding of the restrictions PCP has put in place. When a staff member becomes aware of inside and/or confidential information they must report this immediately to the Compliance Officer, who will then record the details and ensure sufficient restrictions are in place to prevent trading in that issuer/security by those staff members and ensure appropriate information barriers are formed to prevent disclosure to unauthorised persons. Such barriers can include both physical and systematic barriers as deemed appropriate. Persons are only "wall crossed" on a strictly need to know basis and should only be exposed to inside and/or confidential information for the shortest possible time.

Principle 4: Promoting well-functioning markets

Signatories identify and respond to market-wide and systematic risks to promote a well-functioning financial system

Industry Initiatives

As more fully described in Principle 10 below, we believe acting collaboratively with other investors and market participants can lead to better outcomes for clients and the market in general.

Principle 5: Review and assurance

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Policies are reviewed on an annual basis, as and when required or where deemed appropriate, for example following the implementation of new regulation or to bring into line with newly released industry best practice guidance.

We have always believed good, effective stewardship goes hand-in-hand with the Financial Conduct Authority's 11 Principles for Businesses; these Principles are set out in the FCA's Handbook and in particular express the main dimensions for what the FCA consider the 'fit and proper' standard required from industry participants:

i. Acting with integrity
ii. Conducting business with due skill, care and diligence
iii. Managing risk
iv. Maintaining adequate financial resources
v. Observing proper standards of market conduct
vi. Understanding better our clients and their interests
vii. Improving our communication with clients and other stakeholders
viii. Identifying and controlling conflicts of interests
ix. Making decisions within portfolios which we believe are suitable
x. Protecting client assets
xi. Building and maintaining a strong relationship with regulatory bodies

Paying due regard to the interest of clients and how we treat them fairly is enshrined within the Firm's Treating Clients Fairly Policy, which is designed to ensure that at all times the Firm and its staff members bear this overarching principle in mind throughout their activities, including when writing and reviewing policies, helping to ensure that treating clients fairly informs internal decisions and interactions with clients.

PCP is fully committed to the principle of treating clients fairly and having good quality relationships with clients is vitally important to its business. Ensuring this ethos is embedded right from the top of the Firm, whenever any policy is proposed or amended, the Firm's Executive Committee will review it in light of the Firm's commitments to both treating clients fairly and ensuring effective stewardship have both been considered and applied. They can then be reassured that this tone from above successfully infiltrates all areas of the business including those to which a particular policy and/or process applies.

Principle 6: Client and beneficiary needs

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

PCP's client base is limited to professional clients only, and we provide those services to clients globally.

While PCP is not authorised to market its funds directly to retail clients, we categorise our discretionary fund management business as wholesale. Our institutional clients include UK and non-UK pension schemes, insurance companies, financial advisers and family offices. Generally the Firm's clients have medium to long term time horizons (three years plus) for their investments in our funds and we are committed to establishing excellent relationships with our investors to ensure that our funds, services and reporting meet their expectations both currently and as they evolve over time.

As a client-orientated firm, PCP has carried out consultation with its clients and their advisors about expectations and requirements regarding stewardship and ESG, and we have taken these views into consideration when formulating our policies. We endeavour to ensure our clients' needs and expectations are met by creating open dialogues. Our focus on responsible investment over the last year has been driven internally by our recognition that it is both the right thing to do and can potentially provide even better financial outcomes for our clients, while client demand to incorporate ESG factors into our investment process has also helped shape our progress in this field. Such progress and investment continues to evolve.

Both institutional and wholesale clients invest in our pooled funds and PCP has regular contact with its clients on a variety of aspects to do with their investments, which includes responding to all their ESG and stewardship queries as well as proactively producing reports and data and presenting on our ESG developments. The Firm's proprietary ESG dashboard provides ESG data, trends and research to all active managers. PCP recognises that there are limitations in the quality, comparability, and availability of ESG data and encourage improved disclosure through engagement with data providers, companies and support for regulation supporting improved disclosure on ESG issues

PCP is committed to promoting the integration of ESG considerations in investment decisions and to sharing its views and research on responsible and sustainable investing with advisers and the wider public. PCP sees the education of advisers and investors as a key responsibility and it holds investor conferences focussed on ESG and sustainability issues, publishes guides and aides as well as regularly publishing content in various industry publications and on the Firm's website. PCP is also committed to educating clients through outreach programmes such as EnlightenESG, the Firm's sustainability profiling tool developed to help people make more informed choices around sustainable investing. For PCP, these educational pursuits are vital, as the Firm wants people to understand how their money is being put to work when investing sustainably.

Principle 7: Stewardship, investment and ESG integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

As more fully stated in Principle 1, we believe a high standard of internal and external stewardship is central to our business' long term future and we pride ourselves on our rigorous detail-oriented investment approach. Our people drive every aspect of our business.

Investment Process and ESG - The Firm specialises in active investing, and therefore the specific approach to ESG integration used by each investment strategy will depend on the investment objectives, philosophy, asset class and investment timeframe. The CSO works together with the portfolio managers to support and improve the integration approach within the investment strategies. The Responsible Investment Committee provides a forum to share ideas and thinking, to further support ESG integration and stewardship across the investment teams.

Quarterly investment risk meetings, conducted by the CIO and the Investment Risk teams include an ESG portfolio review, which identifies any companies with poor ESG or carbon scores or controversies, for discussion with the portfolio manager.

PCP has always where applicable looked at ESG factors at an individual company level; however, recognises that each asset class and geography hold different challenges. The Firm strives to integrate

ESG factors in all of its investment processes; however, in some asset classes it is challenging to do this in a consistent and methodical manner. For sovereign debt or other asset classes that have been traditionally difficult to cover with ESG scores, the Firm seeks to develop its own methodologies to understand the ESG profile of the governments in which it invests. The Firm currently integrates ESG criteria throughout the investment process for the majority of its assets under management.

The Firm has a strong voting record, and endeavour to actively vote at every meeting with its ESG enhanced voting policy that holds companies to account against a broad set of criteria that is adapted for regional differences.

Emerging market companies, or smaller capitalised companies will also produce less information on ESG related matters and are often not covered by third party data providers. With those companies, the relevant investment team will consider if any particular aspects of that company require further investigation on a case-by-case basis which often involves engaging directly with the companies. PCP participates in several collaborative initiatives to encourage companies to publish more ESG data to encourage better understanding of these issues by both management and the market.

The Firm’s portfolios can also invest in sovereign debt. However, generally PCP views bond holder influence over sovereign borrowers as very limited and so applies an ‘exclusion over engagement’ approach to ESG. Here, the Firm uses ESG ratings-based exclusion and cross reference these with the Freedom House index and World Bank data, to form a custom ESGP score. Lower rated sovereign bonds tend to be a feature of Emerging Market country issuers, investment in which is not a core part of the Firm’s fund range.

No part of our investment process is outsourced, and it is based on our own research. Where appropriate, and at the Firm’s own expense, third party investment research, including from brokers, is also used. We do not constrain ourselves to a thematic investment style but rather believe that by taking a holistic view of individual investments we can weight our analysis of risk and reward by focusing on the most relevant drivers at the time.

Our portfolio managers aim to meet the management of companies whose securities we invest in, or who manages or services any instrument in which we invest – both prior to investment and on an ongoing basis. If a company is taking action that we believe is detrimental to the interests of investors or the market as a whole, we have various ways with which we can engage with them on our clients’ behalf. Any engagement is formally recorded by issue, the desired outcome, the form of engagement, the company’s response and any action subsequently decided by us (see Principle 9 for more detail).

Counterparty Selection - As part of our stewardship responsibilities, we actively manage our counterparty selection process to ensure that we minimise the counterparty credit risk faced by the clients and funds on whose behalf PCP executes securities transactions. This process is managed and overseen by our Risk and Compliance functions.

Client Communication - We believe transparency with regard to our funds’ objectives, performance and construction is a crucial part of our relationship with, and responsibility and accountability to, our clients. We seek to achieve this through multiple forms of media engagement including monthly factsheets, investor roadshows, investor group updates, an annual conference, website content, whitepapers and blogs.

We believe our clients should always be kept informed of the products they hold and our general market opinions. Accordingly we seek to utilise our experience and expertise to educate clients; this in turn not only helps increase their understanding but should assist in more informed decision making.

Principle 8: Monitoring managers and service providers

Signatories monitor and hold to account managers and/or service providers

PCP outsources a number of functions (for instance IT) to providers that supply a level of expertise, infrastructure or systems that do not form part of the Firm's core business. PCP believes this is in the best interest of its clients as by doing so, PCP can reduce costs, manage operational risk, and focus on its core service provision to clients.

To ensure such outsource service providers will meet our needs, PCP goes through a detailed selection process which includes steps such as:

- Where possible, comparing a proposed service provider against different alternatives and competitors;
- Determining whether the chosen provider has the ability, capacity, resources and authority to perform the outsourced functions; and
- Confirming that the chosen provider's processes and systems allow PCP to perform effective oversight of the outsourced function(s).

To enable PCP to effectively monitor these service providers it will enter into written contracts with them which in turn will set out the services and duties. Where deemed appropriate, PCP will also put in place a Service Level Agreement (SLA) to designate the specific tasks to be performed and the service levels required. PCP requests periodic Management Information (MI) from all outsource service providers to enable it to monitor whether the providers are meeting their contractual needs and doing so to the required level.

In addition to ongoing monitoring of outsource service providers by the relevant teams, an annual oversight visit is conducted by the Firm to each outsource service provider and a formal report produced for senior management.

PCP will also periodically engage in a formal review of its outsource arrangements. Such formal reviews are to take place approximately every three years from the date of appointment or in advance of a contracted termination date, whichever date is soonest. Such reviews will consider existing and alternative providers, industry best practice and developments in the Firm's business requirements. Previous monitoring will be included in the review, with any performance issues taken into account. These reviews will be documented by the business area responsible for the outsourced function, and the findings will be presented to PCP's Executive Committee for final review and approval.

PCP has not yet encountered an instance where an intervention was required due to its needs not being met. However, to mitigate against the risk of this occurring, the Firm considers contingency plans when appointing and monitoring outsource service providers with regard to what actions could be taken to best maintain client portfolios and services in the event of a failure of an outsource service provider prior to the appointment of a suitable replacement. Should such a failure occur the first action would be to review the appointment/previous formal review records and the alternative providers considered at the time and assess whether an appropriate alternative can be identified.

PCP maintains good working relationships with a number of service providers, including those the Firm does not currently outsource functions to, and as such do not envisage a scenario where an alternative provider could not be identified and approached in an expedient fashion.

Principle 9: Engagement

Signatories engage with issuers to maintain or enhance the value of assets

As previously stated, we take our stewardship responsibilities seriously and look to always act in the best interests of our clients. As more fully explained in Principle 7, we conduct a significant amount of due diligence on issuers with whom we invest, which enables us to avoid companies we believe do not meet our high standards in strategy, performance and/or ESG factors.

Where we may have concerns over the value of investee companies, we will take steps to protect the value of our clients' investments. This is undertaken through participation in stakeholder meetings, private management meetings and formal written communications.

Principle 10: Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers.

PCP supports international standards, codes and guidelines relating to sustainability issues where it considers they represent a framework for good practice and/or are effective in improving stewardship, sustainability standards and performance. To date, PCP has focused on the three organisations we feel are most relevant to our clients and our business, namely:

- **UK Stewardship Code** – the UK Stewardship Code 2020, overseen by the Financial Reporting Council (FRC), sets high stewardship standards comprising 12 'apply and explain' principles covering four main areas - purpose and governance, investment approach, engagement and exercising rights and responsibilities. PCP aims to comply with the expected reporting requirements, in order to become a signatory to the Code.

- **Principles for Responsible Investment (PRI)** – PCP became signatories to the UNPRI in 2019 and is committed to reporting against the six principles:

    - **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
    - **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
    - **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
    - **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
    - **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
    - **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

- **UN Global Compact** – PCP supports these ten principles in the areas of human rights, labour rights, the environment and anti-corruption derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. Any serious breaches of these principles will result in enhanced due diligence comprising a deeper review of the issues flagged including engagement with the company where appropriate.

Principle 11: Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers.

Engagement with investee companies and underlying fund managers will most likely be through direct dialogue with the management team or through exercising voting rights at General Meetings. If the Firm thinks a company or underlying fund is not being managed in the interests of its clients, it will decide how best to engage with the company or underlying fund to address this.

Where the Firm has concerns about the performance or strategy of an investee company or underlying fund, or where it has reason to believe that the Firm's clients' rights as shareholders are being compromised in any way, the Firm will, in appropriate circumstances, escalate its involvement with investee companies or the relevant underlying fund manager.

Whilst the Firm does not believe in micro-management, in some cases it may be necessary. This could include issues with board independence or remuneration. In cases such as these the Firm would open a dialogue and write to the company/underlying fund manager or meet directly with management to express its concerns.

In some circumstances the Firm would be willing to act collaboratively.

In cases where deemed necessary, the Firm will abstain or vote against management resolutions. Where the Firm abstains or votes against management resolutions it will always write to the Chair of the Board to explain the reasons. If a satisfactory response is not possible the Firm may look to escalate this further.

The escalation process would include, but is not limited to:

- Holding additional meetings with management specifically to discuss concerns
- Intervening jointly with other institutions on particular issues
- Submitting resolutions
- Disinvest if the Firm felt that clients would be at a material disadvantage.

Principle 12: Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

PCP aims to act in the best interests of all its stakeholders by engaging with the companies that it invests in, and by exercising its voting rights with care in order to manage, acquire and dispose of account assets.

PCP will vote proxies in a prudent and diligent manner and in the best interests of clients, consistent with the objective of maximising long-term investment returns and protecting shareholder rights. Not only is this commensurate with good market practice, it goes hand in hand with ensuring the responsible investment of clients' funds.

PCP has appointed Institutional Shareholder Services (ISS), a leading independent corporate governance research provider, to analyse corporate actions, management recommendations and make vote recommendations in order to assist the Firm in the independent assessment of governance issues. The Firm additionally uses ISS's Socially Responsible Investing (SRI) overlay solution for proxy voting guidance from a sustainable finance perspective.

PCP's management body has established a Responsible Investment Committee with the aim of strengthening internal communications on stewardship issues. The committee comprises members of the risk, investment management, compliance departments and the Firm's Chief Sustainability Officer. The common membership of the committee ensures consistency in the Firm's stewardship and responsible investing approach (which includes giving consideration to Environmental, Social and Governance issues).

The Firm will disclose a general description of voting behaviour, an explanation of the most significant votes and report on the use of the services of proxy advisors. The disclosure will include details of how votes have been cast, unless they are insignificant due to the subject matter of the vote or to the size of the holding in the company. The disclosure will be made on the Firm's website and updated annually, unless there has been any material change.