

Artemis Engagement policy

1 Introduction

Our aim is to grow the value of our clients' investments over the long term.

Engagement with companies is a key part of our investment approach and is one of several ways we develop our understanding of companies, raise issues with management and monitor subsequent developments.

1.1 Purpose

This policy sets out a general approach to engagement with companies and associated record-keeping.

Company meetings more broadly may be with investee companies, those being assessed for investment or any other company as appropriate.

1.2 Scope

This policy applies to Artemis Investment Management LLP ("AIM LLP") and any holding company or subsidiary thereof as defined in Section 1159 of the Companies Act 2006 (collectively "Artemis" or the "firm" for the purposes of this policy).

This policy applies to all our investment strategies where engagement with companies forms part of the investment process. The exceptions are our systematic based strategies which use our quantitative framework, SmartGARP®, and macro data-driven strategies such as Strategic Assets.

1.3 Policy compliance

Fund managers work with the Stewardship team to identify specific stewardship issues which would benefit from engagement and prioritise such activities with companies. Fund managers are ultimately responsible for determining engagement activities. Each company meeting, including engagements and associated correspondence if relevant, should be logged within the company meeting database. Details that should be noted include the issuer name, attendees, date of meeting, and at minimum a summary of the key points of the discussion (including anything falling under environmental, social and governance topics). Details on the engagement activity such as status, type of activity (eg letter/call/meeting), and whether it is a direct or collaborative engagement, are also recorded. Further information may be required to be logged for meeting Market Abuse Regulation purposes.

1.4 Policy governance

This policy is reviewed on at least an annual basis or more frequently if required. As part of the review process, the Stewardship team will recommend amendments or enhancements to the Investment Committee for discussion and subsequently for review and approval before any changes are implemented.

2. Our definition of engagement

We use the Investor Forum's definition of engagement:

"Engagement is active dialogue with a specific and targeted objective. It is intended to put the stewardship role into effect. The underlying aim of the engagement dialogue should always be to preserve and enhance the value of assets on behalf of beneficiaries and clients."¹

In our view, as active investment managers it is helpful to distinguish between four types of engagement:

- Engagement with individual companies with the goal of **encouraging change** that is specifically connected to an issue which directly impacts the investment case. This type of engagement helps company Boards understand the focus of investors and the nature of any concerns, and helps investors gain clarity on a Board's approach.
- Engagement with individual companies for **insight** to better understand the company and build conviction in, or challenge, the investment thesis, in order to make informed investment decisions. This also helps investors gain clarity on Board priorities and how risks and opportunities are understood and managed. These meetings also help to build and support good working relationships with corporate leadership teams such that issues can be raised within a constructive environment when necessary.
- Engagement with individual companies which seek to **address thematic, market-wide or systemic risks** such as climate change, but may not directly impact the investment case within the usual investment time-period. For longer-term active investors with corresponding engagement timelines, it is more productive to set broader objectives, rather than fixed milestones. A more iterative approach can then be accommodated, particularly in circumstances where external forces and factors may have a significant impact on outcomes both positive and negative. In these cases, divestment is unlikely to be a helpful course of action as shareholder rights, influence and constructive dialogue can continue to be used while the investment case remains intact.
- Engagement/participation in **industry forums**. This can be either directly at the level of the investee company or more broadly at industry or system level. Engaging with a company through industry forums can be a time and resource-efficient way for company directors to reach a wide cross section of the shareholder base and discuss issues of key importance to investors. These meetings often have a bespoke agenda, curated and facilitated by the industry body (e.g. the Investor Forum), allowing a focused and constructive discussion.

3. Why we engage

Engagement forms part of the investment process and is an important tool in delivering value to clients. Engaging with

¹ <https://www.investorforum.org.uk/wp-content/uploads/securepdfs/2019/04/Defining-Stewardship-Engagement-April-2019.pdf>

companies is a mechanism by which we develop our understanding of companies, raise issues with management and monitor subsequent developments. We value the relationships we build, and knowledge we derive, from meeting and engaging with companies.

While a single engagement event is unlikely to lead to an investment decision, a series of meetings in combination with internal analysis can influence investment actions.

4. When do we engage

Engagement may be triggered by a number of factors such as financial results, changes to the board, decisions on capital allocation, a change to company remuneration policy, a contentious vote or a change in strategy, ie on a reactive basis. Pro-active engagement may take place if there are concerns regarding operational or financial performance, transparency and disclosure, industry-specific considerations, a company's approach to managing material risks including sustainability considerations, or to gain insight into board capabilities and dynamics. If such changes or issues have been identified, meetings will attempt to address these issues at an early stage. To that end, we take seriously our duty to support and improve the corporate governance and sustainability approach of the companies whose shares we own and to keep abreast of best practice.

A range of factors come into play when making the decision on whether to engage, or how to prioritise engagements. These include:

- position in the portfolio and how significant our holding is in terms of proportion of the capital either at individual portfolio level or across the firm
- mitigation efforts by investee companies linked to improving or resolving the issue
- local, industry or regional context which may impact our ability to engage, the approach to engagement and a company's ability to deliver change
- likelihood of access to management or board members and hence our ability to engage productively

When companies fall short of guidelines such as the UK Corporate Governance Code, we consider their explanations carefully. In some cases, we look for evidence that they have acknowledged the problem and are moving towards best practice. In others, the size, complexity or nature of their business or the sector and geography in which they operate will explain why they take a different approach – for example to the structure of the board and its committees.

5. How we engage

At an investment-strategy level, our targeted engagement reflects individual investment approaches and priorities identified by fund managers to address material issues in their portfolios.

Engagement can include face-to-face meetings, calls, emails and letters. Generally, operational and financial matters, and execution of strategy, are likely to involve meeting the executive team. Concerns about board oversight, governance and risk tend to be discussed with non-executives or in certain circumstances it may be appropriate to speak to the chairman or senior independent director. On environmental or social issues, we are likely to contact Investor Relations in the first instance and subsequently discuss

with the company's sustainability specialists.

We prefer to talk privately with management as we believe this is a much more effective way to engage with companies.

Engagement strategies are set after discussion between fund managers and analysts, with the support of our Stewardship team. Engagement is often collaborative across internal investment teams where companies are widely held and/or where there is specific knowledge and expertise on the issue. The approach will reflect our view of the current and future prospects of the company, whether there are specific issues to address, and the stock's current and likely future position in a portfolio. We do not necessarily engage separately on material ESG issues as we expect companies to integrate these factors into their strategy, governance and risk assessments.

Engagements are recorded in a database which allows information to be shared. Alongside external research, this is a key resource for monitoring actual and potential investments.

As investors, we may not wish to be made 'insiders' – that would stop us being able to buy or sell the relevant shares. So we ask investee companies to make sure they get our agreement before giving us privileged information.

6. Escalating our activities

There are times when we need to escalate our engagement efforts to intensify our efforts, to reinforce our message when progress is not forthcoming, to take a position on situations we consider to be serious, or to accelerate action when time is critical.

Our approach to escalation, when required, will depend on the particular issue. Methods could include:

- Talking or meeting with the board and company management
- Writing to the company to explain our expectations as investors
- Voting against or abstaining from management's resolutions
- Supporting a shareholder resolution
- Collaborating with other shareholders to increase pressure for change

This does not stop us selling a holding if that is the most effective response.

The specific escalation strategies used depend on a variety of factors, including, the scale and significance of the issue, the fund managers' views on what will be most effective in encouraging a particular company to address the issue, the specific market, regulations and norms, the size of our holding and our relationship with management.

As with other aspects of our stewardship and investment approach, the decisions on whether and how to escalate are driven by our fund managers, supported by the Stewardship team.

7. Collaborative engagement

Our approach emphasises meeting and talking to company management directly. However, we will consider collaborating with other institutional shareholders if collective action could be more effective and our objectives (including the need for confidentiality)

are aligned. We are most likely to collaborate through industry groups or initiatives addressing specific issues. We consider each case carefully, on its own merits. We may act collectively on corporate strategy and its implementation, capital allocation, directors' pay and environmental and social issues. Institutional investors interested in collective engagement should contact: stewardship@artemisfunds.com

8. Evaluating engagement

We may not set specific milestones or targets for our engagement activities. We believe success is based on an assessment as to whether:

- our views have been acknowledged and, where appropriate, action taken and/or
- our understanding has been enhanced and we have more insight into the various aspects of the business

Ultimately our success (or otherwise) is measured in long-term movements in a company's share price. Engagement is not an end in itself, nor should it be seen in isolation but considered as one of a number of mechanisms used by our fund managers which contributes to delivering returns to clients.

9. Further information

We regularly report on our engagement activities in fund manager commentaries to our clients, for example in annual reports or other regular client reporting. Our annual Stewardship Report provides case studies across our range of strategies. The Artemis website provides more information on our approach to stewardship including engagement, voting and ESG integration.

Website: <https://www.artemisfunds.com/en/gbr/investor/stewardship-and-esg/stewardship>

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