



# ENGAGEMENT POLICY

BEA Union Investment Management Limited

August 2024



# 1. Introduction

At BEA Union Investment (“BU”), we are committed to sustainable investing through active and responsible ownership to bring better investment outcomes for our clients over time. Engagement is a key element of our fundamental due diligence, as well as an important component of integrating environmental, social and governance (“ESG”) factors into our research and investment processes for effective stewardship. As a fiduciary, BU places special importance on how we actively engage the investee companies, representing the interests of our clients. Our actions include identifying and monitoring risks, encouraging companies to manage them responsibly, and exerting our influence as an institutional investor in general.

The core objectives of BU’s engagement activities include:

- (i) To improve corporate disclosure and transparency to benefit investment decision-making and risk management and mitigation;
- (ii) To promote sustainable practices to maximize long-term risk-adjusted returns; and
- (iii) To enhance investors’ value more broadly as a result.

This Engagement Policy outlines BU’s philosophy and framework in engaging the investee companies to identify ESG risks and opportunities. The governance and review of the policy is also defined to promote effectiveness of implementation.

## 2. ESG Topics for Engagement

As an active investment manager, BU believes engagement is an important element to integrate ESG factors into our investment process through constructive dialogues with the companies that we invest in. The ESG topics for our engagement activities are derived from news, market development, industry trends and research findings from our investment teams, with additional ESG input and support from Union Investment, one of our parent companies. Information collected from other stakeholders might also be taken into account in the ESG topics for engagement.

Engagement includes ongoing discussions and communications with the management of the companies for better monitoring of the identified concerns including ESG issues. In addition to proxy voting, active engagement adds value by directly communicating our concerns and priorities, building long-term relationships, and forming a more complete understanding of the investee companies’ strategies and practices.

A core element in our engagement with companies is to understand where they stand in terms of compliance with ESG criteria as well as how they can mitigate risks and capitalize on opportunities. We focus on specific ESG areas for improvement, and continuously monitor and review them with the management so as to encourage improvement by investee companies on their ESG practices in the future.

The key areas we look into may include:

- Governance (e.g. commitment and clear policies on sustainability related topics)
- Transparency (e.g. communicating openly on the outcomes of any measures implemented on relevant topics, and whether they are open to explore and discuss ESG related opportunities and risks)
- Business management (e.g. whether the companies facilitate the implementation of sustainability-related policies, and whether they closely monitor and review the effectiveness of the processes)

Common ESG topics for engagement include:

Environmental	Social	Governance
Air Pollution	Labor management	Governance structure and shareholder rights
Carbon transition	Human capital development	Board composition and independence
Natural disasters	Data privacy and security / Digital rights	Compensation and alignment

*Note: The above ESG topics for engagement are not intended to be exhaustive or compulsory.*

### 3. Engagement Process

BU's engagement process focuses on issues that are most relevant and material to the investee companies and shareholders. It is generally defined in three stages:

#### (i) Pre-engagement

Information collection and fundamental research are often the initial stages, helping to lay the groundwork and identify the relevant issues before we discuss and exchange relevant information with the management of the companies. This fosters a more effective communication and sharing of ESG knowledge for the companies to manage such issues.

## (ii) Engagement

BU's Engagement Policy serves as guidelines for our engagement activities with our investee companies, and is supplemented by our Proxy Voting Policy. BU endeavours to promote good corporate governance practices by exercising our proxy voting right, which is one of the most important rights of equity investors.

For equities, BU investment team exerts our influence on the management and business operations of our investee companies at annual general meetings ("AGMs") and extraordinary general meetings ("EGMs") in the interest of our clients. Our approach is to support the actions that will increase the sustainable value of the companies, shareholders and our community in the long term, and to vote against any action that goes against such objective.

Examples of topics that are addressed at AGMs and EGMs may include:

- corporate governance;
- corporate actions;
- controversial business practices or participation; and
- environmental issues.

Please refer to BU's "**Proxy Voting Policy**" for further details.

Besides proxy voting for equities, our constructive dialogues with our investee companies include direct and ongoing communications with the management. The frequency and priority of our engagement meetings depends on the scale of our investments and the materiality of the issues. We evaluate each situation individually, rather than adopting rigid guidelines on when and how to escalate ESG engagement activities. At our discretion, we select the engagement approaches that will be most appropriate and effective. Within the investment team, investment analysts, portfolio managers and Chief Investment Officers work together to form a case-by-case judgment of how best to proceed in particular circumstances.

For fixed income, we prioritize engagement based on the significance of the holdings in our portfolios as well as the exposure of the issuers and their industries to ESG issues. The most effective way for fixed income investors to raise the issuers' awareness on ESG risk management is through engagement before new bond issuance. Ongoing follow-up meetings and calls with issuers (including via financial result briefing) further enforce our monitoring of the implementation progress of the issuers' ESG target. Such continuous monitoring and investors' feedback are critical for the success of the next round of primary issuance by the bond issuers.

## (iii) Post-engagement

Engagement is a long-term process with results sometimes only becoming apparent after months or years. To support continuous monitoring and analysis of the issues discussed with the management of the companies, documentation and regular reviews are important to evaluate the progress and improvement of the engagement.

If the responses and actions of certain companies are unsatisfactory after regular engagements and reviews, such companies could be excluded from our investment portfolios and universe. Exclusion and divestment should be regarded as a last resort and exercised only after the impact on the portfolios are carefully assessed.

## 4. Recordkeeping and Transparency of Engagement

Engagement activities are recorded in meeting notes and dedicated engagement tracking tools. All the relevant records regarding engagement will be kept for at least 7 years. The records of our engagement activities will be documented and maintained electronically.

## 5. Conflicts of Interest

In engaging the investee companies, cases with conflicts of interest (for example, BU may have a business relationship with the issuer of a security, where such security is in the client's portfolio) are handled with specific actions as follows:

- (i) Internal conflicts of interest between asset classes and/or investment strategies (e.g. equity strategies and fixed income strategies):
  - The Equity Team and Fixed Income Team work closely together to ensure that individual interests and implications are properly addressed and accounted for.
  - In the event of doubt, the ESG Committee advises and makes decisions in the best interests of the fund assets after due consideration of the opportunities and risks as well as fairness to investors of different asset classes.
- (ii) External conflicts of interest in respect of external stakeholder groups (e.g. clients):
  - Engagement activities are based on the general guidelines, which apply to all client portfolios regardless of the business relationship.
  - Engagement topics are prioritized and implemented according to their relevance, feasibility and impact, as determined by our internal assessment.

## 6. Review of Policy

The ESG Committee reviews this Engagement Policy at least annually to consider whether any changes are applicable. The ESG Committee makes revisions to this Engagement Policy when deemed appropriate or when it sees an opportunity to materially improve outcomes for our clients.

