



*KBC Asset Management*

# ***Proxy Voting and Engagement Policy***

*December 2020*

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## 1. Introduction

KBC Group is the largest bancassurer in Belgium and its companies occupy a leading position on its core markets in Central and Eastern Europe. The current Proxy Voting & Engagement Policy applies to the following entities that belong to KBC Asset Management Group: KBC Asset Management NV (Belgium) (“KBC AM NV”), KBC Asset Management SA (Luxembourg) (“KBC AM SA”), KBC Fund Management Ltd (Ireland) (“KBC FM Ltd”), ČSOB Asset Management, a.s., investiční společnost (Czech Republic) (“CSOB AM”) and KBC Asset Management NV Magyarországi Fióktelepe. (Hungary) (“KBC AM NV Hungarian branch”) (together “KBC AM”; individually “KBC AM company” or “KBC AM companies” as the case may be).

In addition the Proxy Voting and Engagement Policy applies to institutional investors as defined in the European Shareholders Rights Directive 2007/36 (“Directive”) who entrust the implementation of an engagement policy as defined in article 3g of the Directive to a KBC AM company that invests on behalf of such institutional investors (“Institutional Investors”) whether on a direct discretionary client-by-client basis (“Portfolio” or “Portfolios” as the case may be) or through a collective investment undertaking managed by KBC AM.

Sustainability is not part of a separate strategy, but is instead integrated into the overall corporate strategy of KBC Group and our day-to-day business activities. Sustainability to KBC Group as a bank-insurer means that we are able to respond to the expectations of all involved stakeholders, not only today but also going forward.

Through managing collective investment undertakings and Portfolios, KBC AM invests the capital entrusted to them by clients in financial instruments. This entails the responsibility to act in the best long-term interest of clients, both retail and institutional, and these interests may differ from those of KBC. Not defending investors’ interests would not be aligned with the sustainability principles of KBC Group. With shareholder activism on the rise, KBC AM needs to perform its duties as an asset management company in the interest of the investor on a continuous basis.

KBC AM is convinced that shareholder activism, in the medium and long term, may have a positive impact on the companies we invest in (“investee company”). This can have a significant impact on the value creation of the companies and indirectly on the returns of our funds.

Social norms and legislation are moving towards more shareholder engagement. Thus, the European Union in 2017 has amended Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement. In this Directive the importance of having a policy around exercising voting rights is emphasized. The European Fund and Asset Management Association (EFAMA) also emphasizes the importance of engagement and the exercise of voting rights. This Proxy Voting and Engagement Policy, among other things, implements the amended Directive, the EFAMA Stewardship Code and the transposition of the Directive per country at the level of KBC AM.

From this perspective, KBC AM (1) monitors the companies in which the collective investment undertakings both in the form of 'UCITS' (Undertakings for Collective Investment in Transferable Securities) and of 'AIFs' (Alternative Investment Funds) (UCITS and AIFs hereafter collectively referred to as "Fund" or "Funds" as the case may be) it manages, are invested in, as well as the companies in which Portfolios are invested in, (2) intervenes with investee companies (avoiding insider information), (3) takes part in appropriate collective engagement initiatives and (4) exercises voting rights in a considered way. These responsibilities are executed in the exclusive concern of defending the interests of the investors of the Funds and the Portfolios. In order to obtain these results, KBC AM has created different initiatives, which are described in this document.

These initiatives include:

- Monitoring of companies;
- Dialogue with companies;
- Proxy Voting;
- Active engagement; and
- Cooperation with other shareholders.

KBC AM has established the KBC AM Proxy Voting and Engagement Committee ("PVEC") that oversees and coordinates the initiatives and ensures consistency between the different initiatives.

Chapter 4.B describes the internal rules of the Proxy Voting and Engagement Committee in case of proxy voting. These rules apply mutatis mutandis when the Proxy Voting and Engagement Committee takes a decision related to the other initiatives, e.g. in the framework of active engagement.

Whenever the Proxy Voting and Engagement Committee or one or more of the KBC AM companies request it, the Proxy Voting & Engagement Policy will be reviewed and possibly amended.

## 2. Monitoring of companies

KBC AM has a team of analysts who are specialised in a sector, or subsector. In total, the team closely covers a universe of approximately 2 000 companies. This is a dynamic set of names, selected on the basis of current holdings and market conditions.

The task of an analyst includes both financial and sustainability screening. The financial screening may include the analysis of the investees' strategy, financial performance, non-financial performance, risks and capital structure. The sustainability screening may include the analysis of social impact, environmental impact and corporate governance. To cover the companies on a daily basis, the analyst can utilize input provided by different external data providers. For the financial information, analysts have access to the data from Bloomberg and Datastream. In addition, through cooperation with many sell-side brokerage houses, the

analysts stay on top of developments pertaining in their sector and the companies they cover. In order to know what is happening in terms of sustainability, the team has access to the online platform of Sustainalytics, which is a leading global provider of ESG and corporate governance research. Finally, the analysts have access to the portal of Institutional Shareholder Services (ISS), a proxy advisory firm that is a leading provider of corporate governance and responsible investment solutions.

### 3. Dialogue with companies

KBC AM interacts with investee companies on an ongoing basis. The following elements, among others, may prompt a dialogue:

- A lack of transparency surrounding economic, strategic, corporate governance or corporate social responsibility elements;
- A poor performance as regards one or more 'sustainable business' criteria compared to their peers; or
- Business-economic measures that threaten to destroy shareholder value.

Such dialogue takes place through meetings with company's management to discuss specific concerns. This includes ad hoc meetings with the Chief Executive Officer, C-level management, (senior) independent directors, the chairman and/or members of the supervisory board, investor relations' representatives of the company under coverage.

The dialogue between companies and investors on Environmental, Social and Governance (ESG) issues and the companies' financials is a common practice. It benefits both parties, by making companies aware of the issues and the opportunities, and by giving investors more insights.

### 4. Proxy Voting

As the execution of voting rights is an integral part of a well-functioning corporate governance system, KBC AM takes its responsibility by exercising the voting rights of shares held in all Funds managed by KBC AM and the Portfolios. By exercising these rights, KBC AM defends the interests of the Funds and of the Portfolios in an independent and consistent manner.

To exercise these rights and ensure consistent voting, KBC AM uses a voting policy developed by ISS. This voting policy outlines the general principles in assessing the resolutions of a general meeting of an investee company. It is divided thematically in separate articles, each covering a broad theme of potential proposals. On an annual basis, the PVEC will review the voting policy of ISS, and the changes that ISS will make to its voting policy.

All companies in which the Funds and the Portfolios have the voting rights amounting to at least 0.35% of the specific general meeting are in scope. In addition, all companies in the BEL 20-index invested in by the Funds and the Portfolios and all companies invested in by KBC ECO Impact Investing Fund are also in scope. These voting rights result from the ownership of equity.

During the entire proxy voting process, there will be no communication regarding the voting recommendations to (1) the company under analysis or (2) third parties.

The process of proxy voting consists of the following steps:

#### A) Financial analysts assess the need for the decision of the PVEC

KBC AM will utilize the voting recommendations based on a benchmark voting policy developed by ISS. This input includes financial company data, corporate governance related data such as management profiles, benchmarking the company on corporate governance metrics, clarification of legal issues and outcomes of previous general meetings. The voting instructions based on ISS's benchmark policy will automatically be uploaded on a voting platform of ISS.

The financial analyst will determine whether a decision of the PVEC is required. This can be the case when:

- The analyst determines that a vote can be sensitive/impactful; or
- The company has a negative outcome for an Active Engagement case "Resolve ESG issues".

In the case where a decision from the PVEC is not required, the voting instructions will be automatically forwarded to the Custodian via the ISS voting platform.

In the case where a decision from the PVEC is required, the financial analyst collects the necessary information to make an in-depth assessment. The sources used include, but are not limited to, material provided by the company, public sources and third party reports (e.g. company reports from ISS). The analyst can also engage with the company directly for additional clarification.

The financial analyst drafts a voting recommendation for the Proxy Voting and Engagement Committee, consisting of a separate recommended voting action on each proposal for which the decision of the PVEC is required.

#### B) The Proxy Voting and Engagement Committee

The KBC AM Proxy Voting & Engagement Committee consists of 8 permanent members, among which two (2) members of the Executive Committee of KBC AM NV (i.e. the Chief Investment Officer and the Chief Risk Officer). Two (2) members participate in the PVEC based on their function: the head of Equity Portfolio Management of KBC AM NV and the head of Investment Research of KBC AM NV. Furthermore, there are two (2) members that are external experts, at least one of which is independent. Their knowledge and experience help the PVEC fulfil its role.

The ExCo members of the PVEC and the external experts are appointed by the Executive Committee of KBC AM NV.

ČSOB AM and KBC AM NV Hungarian branch each have 1 representative in the PVEC.

Any member of the PVEC, except for the external members, may delegate his attendance for one or more meetings to another employee of KBC AM with sufficient expertise and experience in the matter. The CRO may only delegate his/her attendance to the Head of Company Risk & Support or the CEO of KBC AM NV. The CIO may only delegate his/her attendance to another Executive Committee member, with exception of the CRO.

Depending on the items on the agenda, ad hoc invitees will be invited to participate in a particular meeting.

Although the Compliance Officer of KBC AM NV or his deputy and the designated legal advisor of KBC AM NV are not members of the PVEC, they are both required to assess whether the voting recommendations and other items on the agenda of a PVEC meeting meet the necessary and/or relevant conditions from a compliance or legal point of view respectively. The Compliance Officer of KBC AM NV and the designated legal advisor of KBC AM NV will consult with the Compliance Officer and a legal advisor of the relevant other KBC AM company in case of funds for which that other KBC AM company is the designated management company.

The appointment as a member of the PVEC and/or any attendance to a committee meeting or other related process implies the acceptance of:

- For internal members: the Code of Conduct of the relevant KBC AM company;
- For external members: confidentiality declaration with respect to all discussion material and decisions of the PVEC;
- For all members: regulations with regard to personal transactions in financial instruments.

### C) Voting decision by the Proxy Voting and Engagement Committee

For the cases where a decision of the PVEC is required, the PVEC reviews the assessment made by the financial analyst and draws up a voting decision on each resolution.

Decision making takes place in the form of a consensus reached between the CIO and the CRO. The issue will be referred to the KBC Asset Management NV Executive Committee for further deliberation only if no consensus between the CIO and the CRO is reached.

The department of Investment Research of KBC AM NV will subsequently be responsible for implementing the voting decision on the voting platform of ISS, after which the voting instructions will automatically be forwarded to the Custodian.

Annually the Investment Research department of KBC AM NV reports to the PVEC on the proxy voting actions taken during the year. Subsequently, the PVEC will report the findings of this annual review to the Executive Committee of KBC AM NV.

#### D) Procedure for Funds to participate in shareholder meetings of Funds

A Fund that is invested in an underlying Fund (“Participating Fund”), will in principle use all its shares, which are limited to 25% of the units of a single UCITS or other collective investment undertaking, of the underlying Fund to vote at an annual or an extra-ordinary general meeting of such underlying Fund. The limitation of up to 25% has been put in place in the interest of the underlying funds to prevent a shareholder from exercising a decisive influence on the policy of the underlying fund. In this regard the 25% aims to have fair representation at shareholder meetings between direct investors and Fund-of-Fund investors.

During a period before shareholder meetings, participating shares in the voting process at the shareholder meetings are blocked for trading. Fund-of-Funds participating with the full participation, would not be able to respond to changing market circumstances due to the blocked shares.

The procedure is as follows:

- Step 1: the legal department of the KBC AM company that is the designated management company of the participating Fund informs its portfolio management department of the upcoming annual or extra-ordinary shareholder meeting;
- Step 2: the portfolio management department advises on the percentage of the shares that may not be used to vote in order to guarantee sufficient “free flow”;
- Step 3: the decision on whether or not to participate at the relevant shareholder meeting (“vote for/against” or “not vote”) and on the advice of the portfolio department regarding the free flow will be taken by the Chief Investment Officer of KBC AM (“CIO”); the Chief Investor Support Officer of KBC AM (“CISO”) will act as substitute of the CIO if the CIO is unable, for whatever reason, to take a decision within the required time frame;
- Step 4: the legal department blocks the shares based on the decision of the CIO (or CISO).



## 5. Active engagement

KBC AM takes an active role in engaging with companies in the interests of driving long term value. The aim is to raise awareness of sustainability and to stimulate action in the event of ESG issues. The engagement process that KBC AM uses, makes the distinction between two forms of engagement. On one side KBC AM will try to improve ESG policies for small firms. On the other side, KBC AM will try to resolve ESG issues with large companies. KBC AM is convinced that this type of active dialogue will strengthen a company's insight into those issues that are important to shareholders and we believe it can add to the company's ability of long-term value creation.

Table 1. Distinction between forms of engagement

	<i>Improve ESG policies</i>	<i>Resolve ESG issues</i>
<i>Main target</i>	<i>Small Companies</i>	<i>Large Companies</i>

For each company KBC AM engages with, an in-depth analysis will be made with regard to the ESG scores and controversies of the company. For this analysis, the sustainability data from Sustainalytics will be used. To gain additional insights, KBC may communicate with relevant stakeholders. In a next step, KBC AM will identify the necessary improvement objectives, which will be provided to the company with whom KBC AM engages.

Contact with a company will always consist of bilateral dialogues (bi-way engagement). During a bi-way engagement, an exchange of information should take place between asset managers and the investee companies.

### A) Improve ESG policies

The main scope for this type of engagement is defined as all small cap companies held in KBC ECO Fund Impact Investing. In addition, KBC AM will also engage with companies on request of the PVEC, the analysts of KBC AM or the SRI Advisory Board. KBC AM defines small cap companies as companies with a market capitalization below 3 billion EUR.

Sustainalytics will, based on the company's absolute ESG score, classify each company relative to its global industry peers. Each industry has a fixed band of scores that links to a relative position range. Companies can fall in five categories: laggards, underperformers, average performers, outperformers and leaders. The industry specific bands are based on the rating scores of approximately 4,000 companies that are assessed under the Sustainalytics comprehensive ESG Ratings framework. The bands are reviewed and updated annually.

KBC AM will engage with companies if the following conditions are met:

- Companies with low score on environment pillar
  - Underperformer
  - Laggard

- Companies with low score on social pillar
  - Underperformer
  - Laggard
- Companies with low score on governance pillar
  - Underperformer
  - Laggard

KBC AM will assess on a monthly basis whether additional engagement processes have to be started up.

In order to achieve the desired result, KBC AM defines the following goals for this type of engagement:

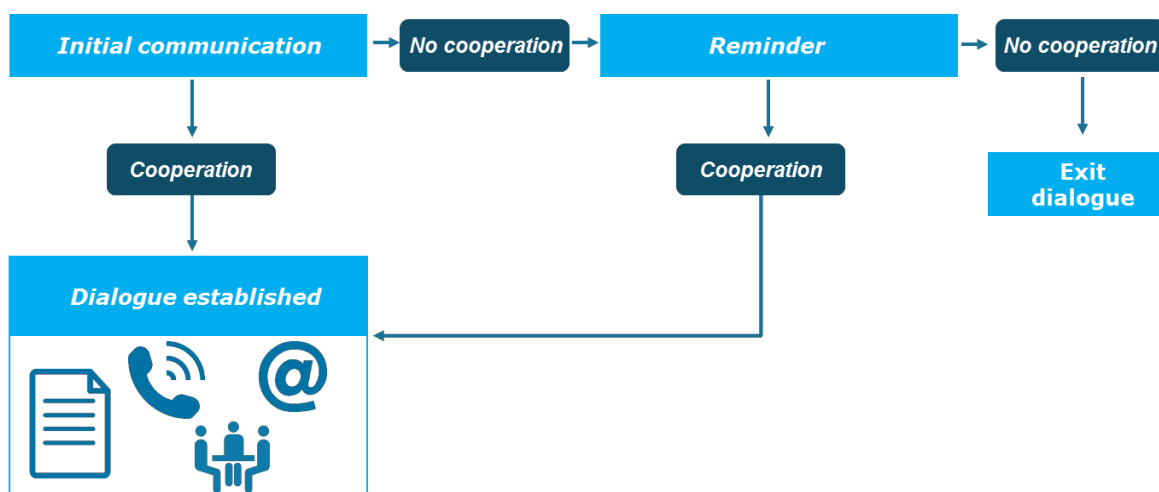
- 1) Initial communication
- 2) Dialogue established

To achieve these goals, KBC AM will start the engagement process by sending out the in-depth analysis to the companies. If the companies respond to our invitation and want to cooperate, KBC AM will enter into active dialogue with the company. This dialogue can be conducted through various means, including letters, phone calls, e-mails or meetings. The sole aim of this dialogue is to indicate how the investee company may improve their ESG policies.

If the company does not respond to our invitation, KBC AM will send out a reminder. If the company still does not (or no longer) want to cooperate or does not respond, the engagement process will stop. As our goal for this type of engagement is to help the company with developing ESG policies, no sanctions will be taken against the company. After a period of three years, or when there is a change of management, the company will again be eligible for engagement.

This process is shown in the figure below.

Figure 1. Engagement process: Improve ESG issues



## B) Resolve ESG issues

The scope of this type of engagement is all companies that are part of the MSCI Europe benchmark. Currently the benchmark holds 446 companies. In addition, KBC AM will also engage with companies on request of the PVEC, the analysts of KBC AM or the SRI Advisory Board.

Each company will be analysed to check whether it is involved in one or multiple controversies. The assessment is based on the highest impact or risk score assigned to the related incidents, alongside a broader assessment of the evolution of the controversy and company preparedness and response. Sustainalytics has defined five categories:

- Category 5 – Severe: The controversy has a severe impact on the environment and society, posing serious risks to the company. This category represents the most egregious corporate behaviour.
- Category 4 – High: The controversy has a high impact on the environment and society, posing significant risks to the company. This category often reflects structural problems in the company.
- Category 3 – Significant: The controversy has a significant impact on the environment and society, posing moderate risks to the company.
- Category 2 – Moderate: The controversy has a moderate impact on the environment and society, posing minimal risks to the company.
- Category 1 – Low: The controversy has a low impact on the environment and society, posing negligible risks to the company.

KBC AM will only engage with companies if the following conditions are met:

- MSCI Europe
  - Sustainalytics controversy score 5
  - KBC AM has voting rights of the general meeting
- Companies added on request of the PVEC, analysts or SRI Advisory Board
  - Concerns about the company's business strategy and its execution, risk management, environmental and social concerns, corporate governance issues such as board composition and the election of independent directors, together with executive remuneration, compliance, culture and ethics, and performance and capital structure.
  - KBC AM has voting rights of the general meeting

KBC AM will assess on a monthly basis whether additional engagement processes have to be set up.

The goals for this type of engagement consist of:

- 1) Initial communication;
- 2) Dialogue established;
- 3) Commitment of company to address issue;
- 4) Issue resolved.

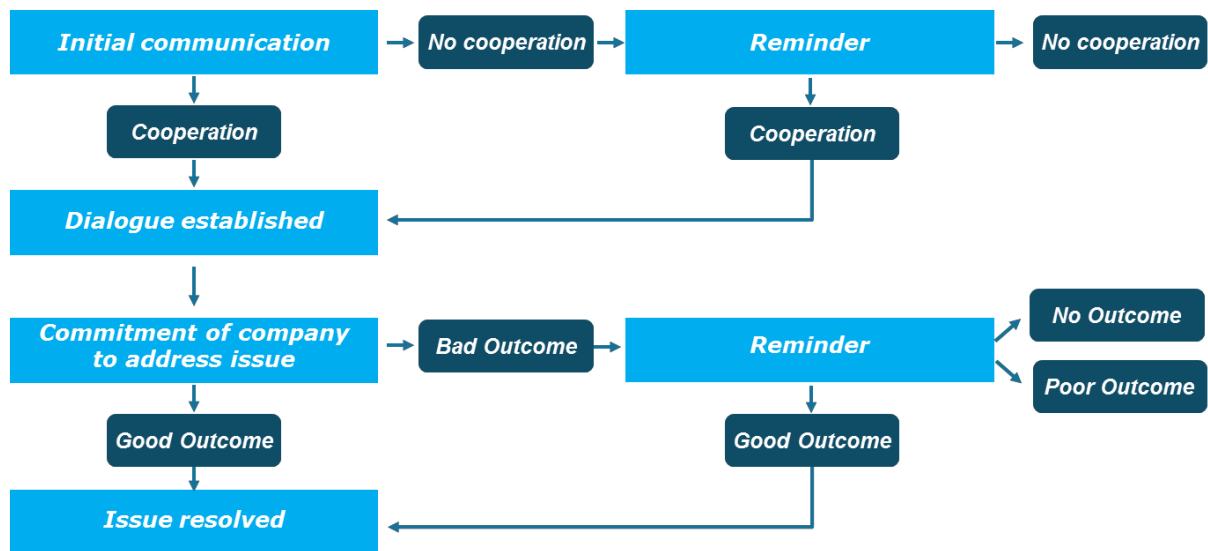
As with the other form of engagement, KBC AM will start with sending out our in-depth analysis to the companies. If the companies respond to our invitation and want to cooperate, KBC AM will enter into active dialogue with the company. This dialogue can be conducted through various means, including letters, phone calls, e-mails or meetings. The aim of this dialogue is to get a commitment of the company to address this issue and to actually resolve the issue.

The company can choose to enter into dialogue with KBC AM in order to find a suitable solution. In addition, the company can publicly address the issue and give a commitment to solve the problem. In either case, KBC AM will analyse the proposed solution and may decide to stop the engagement process.

If the company does not respond to our invitation or is not willing to cooperate, KBC AM will send out a reminder.

This process is shown in the figure below.

Figure 2. Engagement process: Resolve ESG issues



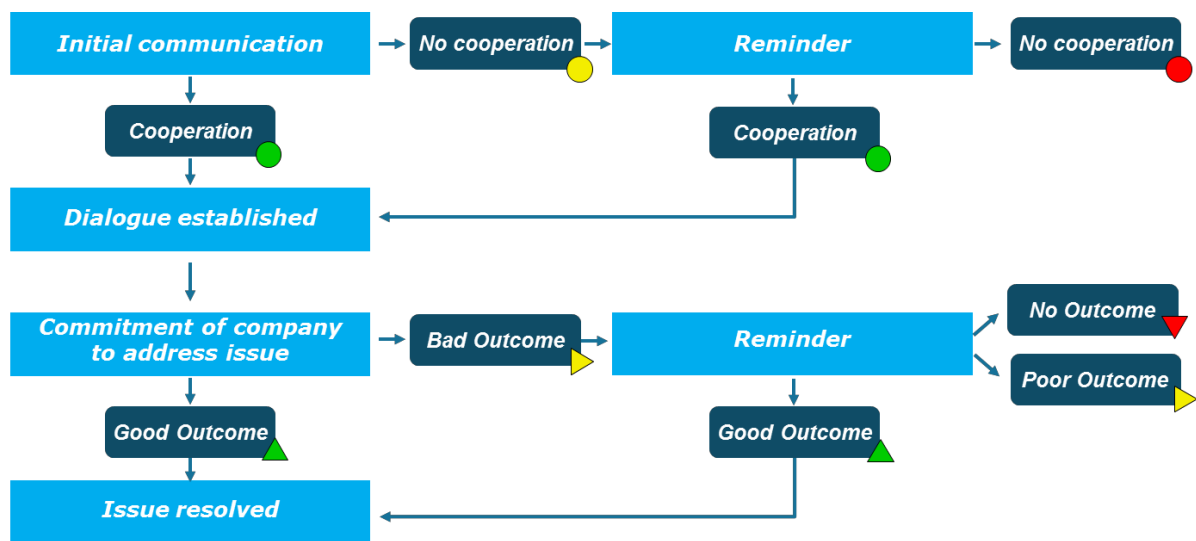
During the engagement process, KBC AM will assign a label to each company. These labels can be categorised as a ‘response label’ and ‘progress label’. The response label refers to whether the company has responded to our invitation or not, while the progress label refers to the progress the company is making to resolve the ESG issue.

Table 2. Response and progress labels

Response label	Progress Label	Status
●	▲	Good
●	▶	Poor
●	▼	None

The figure below shows which label we assign in which phase of the engagement process.

Figure 3. Engagement process: Response and progress labels



If a company is labelled as 'none' for one of the two labels, KBC AM will vote against the following resolutions at a general meeting:

- financial statements;
- re-election of CEO and other executives.

On an ad hoc basis, if the controversy is found to be very serious and after consultation with the PVEC, KBC AM may exceptionally vote against the discharge of directors and auditors, including members of the management board and/or supervisory board. This measures can be considered when there is reliable information about significant and compelling concerns that the board is not fulfilling its fiduciary duties, warranted on a CASE-BY-CASE basis, by:

- A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest
- Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged action yet to be confirmed (and not only in the fiscal year in question) such as bribery, fraud, and other illegal actions
- Other governance issues where shareholders can bring legal action against the company or its directors.

## 6. Cooperation with other shareholders

KBC AM may cooperate, on behalf of the Funds and the Portfolios, with other investors at times when this may be the most effective manner to safeguard the best interest of the shareholders of the Funds and of the Portfolios. Each cooperation with other investors is based upon the idea that incremental benefits can be reached for the Funds and the Portfolios compared to engaging individually. Each cooperation will at all times comply with competition laws, especially with regard to acting in concert.

## 7. Class actions

KBC AM companies regularly participate in class action suits where this is in the interest of the Funds and the Portfolios. These class actions take place predominantly in the United States of America. The relevant KBC AM company may take up a role as lead-plaintiff in a class action but will only do so if there is a clear indication that this is necessary for the investors' best interest. In principle, the Funds and Portfolios involved do not bear the costs of these procedures but any possible profits resulting from a settlement or positive court ruling are fully transferred to the Funds and Portfolios involved.

## 8. Conflicts of interests and insider information

Conflicts of interest may exist or arise within asset management companies. Each KBC AM company has adopted its "Conflicts of Interest Policy" in order to identify, manage and monitor such potential and actual conflicts of interest.

In principle, the interests of the Funds and the Portfolios converge with regard to the exercise of voting rights. The aggregation of voting rights - i.e. the fact that all companies in which the Funds managed by KBC AM and the Portfolios together have voting rights that amount to at least 0.35% of the specific general meeting are in scope - works to the advantage of each managed Fund and Portfolio taken separately. It is important to concentrate efforts on these general meetings where the aggregated votes may have a material impact on the outcome. Therefore, a minimum threshold of 0.35% of all voting rights is applied.

Should a potential or actual conflict of interest arise between positions in one managed Fund, between two or more Funds, or between KBC AM companies - and by extension, other KBC Group companies - and an investor of a Fund, the PVEC will submit a proposal to a member of the Executive Committee (except for the Chairman of the PVEC) and the Compliance Officer of the KBC AM company/companies that is/are the designated management company. The member of the Executive Committee and the Compliance Officer decide in mutual consent on the proposal unless the proposal consists in not exercising the voting rights in which case the submission is only for information and not for decision. If the decision of the member of the Executive Committee and the Compliance Officer is negative, the PVEC shall formulate another proposal. Should a potential or actual conflict of interest arise between the positions in one Portfolio, between two or more Portfolios, between a Portfolio and a Fund, or between

KBC AM companies - and by extension, other KBC Group companies - and the positions in a Portfolio, the PVEC will submit a proposal to a member of the Executive Committee (except for the Chairman of the PVEC) and the Compliance Officer of the KBC AM company/companies that is/are the designated management company. The member of the Executive Committee and the Compliance Officer decide in mutual consent on the proposal unless the proposal consists in not exercising the voting rights in which case the submission is only for information and not for decision. If the decision of the member of the Executive Committee and the Compliance Officer is negative, the PVEC shall formulate another proposal.

If a member of the Executive Committee of KBC AM NV, a member of the PVEC or a KBC AM employee who at any stage is involved in the provision of advice to the PVEC has a personal interest, whether or not that personal interest is in conflict with the interests of the holders of the shares concerned, he/she will abstain from taking part in the decision process on a voting recommendation. He/she will provide a written report on this matter to a member of the Executive Committee (except for the Chairman of the PVEC) and the Compliance Officer of the relevant KBC AM company.

KBC AM maintains very strict guidelines and policies regarding the potential misuse of inside information that employees and external members may obtain through the performance of their duties. As market abuse (i.e. insider dealing, improper disclosure of inside information and market manipulation) damages market integrity and undermines confidence in financial markets, KBC AM, in order to have effective processes to identify, monitor and manage the risk of market abuse, implemented and applies the following policies in each KBC AM company: Market Abuse Policy, Regulation on Personal Transactions and Procedure for Fund Managers & Analysts on dealing with Inside Information.

## 9. Stocklending & recalling lent stock

Stocklending is an important factor in safeguarding market liquidity, and can make a substantial contribution to the return of an investment. However, it prevents the possibility of exercising voting rights. If a situation calls for a voting procedure to be started, the KBC AM company that is the designated management company will stop lending the shares of the issuer in question. KBC AM will intervene in this way if the matter is considered important, e.g. in the event that KBC AM will vote against certain resolutions in the context of active engagement.

**Appendix No. 1**  
**ENGAGEMENT POLICY**  
**OF “KBC ASSET MANAGEMENT NV – BRANCH” BFT, BULGARIA**

## **I. GENERAL PROVISIONS**

This **Engagement Policy** (respectively the “**Policy**”) of “KBC Asset Management NV – Branch” BFT, Bulgaria, a branch of the foreign Management Company “KBC Asset Management NV” - Belgium, Brussels (“the MC Branch”), determines the manner and order in which the MC Branch monitors, controls and participates in the management of the companies in which the MC Branch invests at the expense of the collective investment schemes managed by it and of the clients of individual portfolio management services (collectively called “**the Investors**”). The Policy is prepared in accordance with the requirements of Art. 105a of the Activity of Collective Investment Schemes and Other Undertakings for Collective Investment Act (“ACISOU CIA”), other applicable legislation on the activities of management companies and the engagement principles of asset managers developed by the European Fund and Asset Management Association (EFAMA).

The Policy aims to encourage the establishment of long-term relationships between the MC Branch and the companies in which it invests at the expense of the Investors, and thus to improve the services provided by the MC Branch by achieving the best possible investment result for the Investors in compliance with their chosen investment objectives, policies, strategies and limitations. To this end, the MC Branch shows engagement to the companies in which it invests by regularly monitoring their activities, maintaining contact with their representatives and exercising the rights to the shares in which the MC Branch has invested at the expense of the Investors, including jointly with other shareholders.

The MC Branch applies the Policy to all direct equity investments made at the expense of the Investors in companies whose registered office is located in a country that is part of the European Economic Area and whose shares are admitted to trading on a regulated market located or operating in a country that is part of the European Economic Area. The MC Branch may choose not to apply certain requirements of this Policy to an Investor's investment in a certain company when the application of these requirements is associated with disproportionate difficulties of a legal and/or factual nature that outweigh the benefits of their application, including in view of the amount of the managed share participation in that company; the geographical location of the company's registered office and of the regulated market on which it is admitted to trading; the possibility and costs related to contact the representatives of the company and the exercise of rights related to participation in that company, etc.

## **II. MONITORING OF THE ACTIVITIES OF THE COMPANIES IN WHICH THE MC BRANCH INVESTS**

In order to ensure that the Investors' funds are invested in accordance with the investment goals, policies, strategies and restrictions set by them, the MC Branch regularly monitors the activities of the companies in which it invests at the expense of the Investors. As part of this monitoring, the MC Branch examines whether and to what extent the companies in which it invests have effective management, a sustainable corporate governance structure and adequate supervisory and control bodies. Depending on the engagement and goals of its Investors, the MC Branch monitors the current financial and non-financial results and risk of the companies in which it invests, in relation to the following aspects:

- ✓ Business strategy and its implementation;
- ✓ Risk management;
- ✓ Environmental and social responsibility;



- ✓ Quality of corporate governance, including composition, qualities and remuneration of the governing bodies, the presence of independent directors, etc.;
- ✓ Regulatory compliance, corporate culture and ethics;
- ✓ Financial and non-financial results and capital structure.

In order to assess the financial and non-financial results and risk of the companies in which it invests, the MC Branch may use the following sources of information:

- ✓ Public financial reporting and non-financial information provided by the companies, including disclosed annual and interim financial statements, audit reports, activity reports, regulatory disclosures related to corporate governance, etc.;
- ✓ Disclosed inside information, press releases, presentations, public appearances of the companies, their governing bodies and majority shareholders;
- ✓ Agenda and materials for convened general meetings of shareholders;
- ✓ Official stock exchange bulletins or similar sources of information maintained by the regulated market on which a company is admitted to trading;
- ✓ Standard platforms for market information, such as Bloomberg, etc.;
- ✓ Official statistical and reference information;
- ✓ Analyses, publications and comments of certified Bulgarian and foreign consultants and analysts, including authorized advisers within the meaning of §1, item 55 of the Additional Provisions to the Public Offering of Securities Act (“**POSA**”);
- ✓ General one-time or periodic meetings between the management of the companies and the investors;
- ✓ Industrial conferences, seminars and trade fairs.

### **III. COMMUNICATION WITH THE COMPANIES IN WHICH THE MC BRANCH INVESTS**

When, during its monitoring under item II above, the MC Branch identifies current or potential problems and risks in the monitored activities of a company in which it has invested at the expense of the Investors, the MC Branch - taking into account the possibility of proportional application of the Policy - may contact representatives of the company and require the provision of additional information, respectively elimination of these problems and risks.

The MC Branch contacts the companies in which it invests, using appropriate contact points, including investor relations directors, members of the management or the supervisory bodies and/or other employees in management positions in the respective company.

The MC Branch can communicate with the companies in which it invests by all means appropriate to the relationship with the respective company, including through meetings with representatives of the company’s senior management, telephone conversations, exchange of electronic messages, submission of written complaints and requests for information, etc. Communication with companies in which the MC Branch invests can be either unilateral (for example, by sending opinions and comments on current developments in the respective company) or bilateral, in the form of dialogue or exchange of information between the MC Branch and the respective company.

When the representatives of a company in which the MC Branch invests are not ready for a constructive dialogue on the identified weaknesses in its corporate governance, or when it is obvious that initiating a dialogue is not appropriate to eliminate these weaknesses, the MC Branch should undertake additional steps, including but not limited to:

- ✓ Taking joint actions with other shareholders in the company in accordance with item IV below, including to file claims against the company and/or members of its management and supervisory bodies;
- ✓ Voting against and/or abstaining from voting on proposals for decisions of the respective general meeting of the shareholders of the company;
- ✓ Proposing, as far as the Investors have the necessary number of shares from the capital of the company, the inclusion of issues or proposing decisions on issues already included in the agenda of a forthcoming general meeting of the company;
- ✓ Initiating, including acting together with other shareholders, the convening of an extraordinary general meeting of the company according to an agenda determined by it/them;
- ✓ Exercising other rights arising from or related to the managed shareholding in the company, which are appropriate for eliminating the identified weaknesses;
- ✓ Terminating the investment by disposing of the managed shareholding in the company.

#### **IV. COOPERATION WITH OTHER SHAREHOLDERS IN THE COMPANIES IN WHICH THE MC BRANCH INVESTS**

In the management of investments, the MC Branch is guided only by the interest of the Investors to achieve the best possible investment result in accordance with the investment goals, policies, strategies and limitations set by the Investors. Therefore, as a rule, the MC Branch does not intend to take joint actions with other shareholders in which the MC Branch invests at the expense of the Investors.

In rare cases, the MC Branch may decide to cooperate with other shareholders in companies in which the MC Branch invests when such cooperation is in the best interests of Investors, including in order to deal with the effects of extraordinary events for the company or the economy as a whole, which create a significant risk for the activity and the future development of the company. The main factors that the MC Branch takes into account when deciding whether to participate in collective action with others include:

- ✓ Whether the objectives of the joint actions coincide with the objectives of the Investors;
- ✓ Whether the engagement as part of a group will be more successful than the engagement individually, including whether participation in collective action with others is necessary in order to provide an opportunity to take action for which the Investors alone do not have the required number of shares according to applicable legislation;
- ✓ Whether the joint actions can be interpreted as “concerted actions” with another person, in which case the MC Branch shall not participate in such actions;
- ✓ Whether the joint actions comply with the applicable law and the internal rules and procedures of the MC Branch, including on the treatment of conflicts of interest and the prevention of market abuse; otherwise the MC Branch shall not participate in such actions.

#### **V. EXERCISE OF VOTING RIGHTS ON SHARES IN COMPANIES IN WHICH THE MC BRANCH INVESTS**

In order to achieve best execution in the management of investment portfolios, the MC Branch applies mechanisms that allow it to monitor the timely receipt of information about forthcoming general meetings of holders of shares in companies in which it has invested assets of any of the Investors. In addition, the MC Branch uses pre-prepared strategies to determine the time and manner in which the right to vote will be exercised at the expense of the Investors in the shareholding.

In implementation of the prepared strategies the MC Branch shall:

- ✓ Monitor publicly announced information about forthcoming general meeting of holders of shares in a company in which the MC Branch has invested funds;
- ✓ Ensure that the exercise of voting rights is in accordance with the investment objectives and limitations of the respective Investor;
- ✓ Take measures to prevent or manage conflicts of interest arising from the exercise of voting rights.

The MC Branch exercises the right to vote in the exclusive interest of the Investors and in ensuring independence from the interests of third parties, for example, other Investors, etc.

The MC Branch decides on the timing and manner in which voting rights will be exercised in a managed shareholding, taking into account the following, non-exhaustively listed criteria:

- ✓ Amount of the investment in the company - issuer of the financial instruments;
- ✓ Agenda of the forthcoming general meeting, including issues related to the areas of engagement;
- ✓ Proposals of the management body of the issuing company for decisions on the issues included in the agenda;
- ✓ Expenses related to the exercise of the right to vote.

The MC Branch may decide not to exercise the right to vote on a shareholding managed by it when the application of these criteria shows that the difficulties of a legal and/or a factual nature related to the exercise of the right to vote significantly outweigh the benefits of the voting, i.e. the voting is negligible.

Before deciding whether to exercise the right to vote on a shareholding managed by the MC Branch and how to exercise this right at a forthcoming general meeting of shareholders in a company in which the MC Branch has invested, the MC Branch considers and carefully analyses the proposals of the management body of the issuing company and other proposals for decisions on the items on the agenda, if any. For this purpose, the MC Branch monitors daily the availability of publicly announced information about forthcoming general meetings of companies in which the MC Branch has invested, including but not limited to information about the date of the general meeting, the agenda and the proposals for decisions on the items on the agenda, and instructions on where the materials for the respective general meeting can be found. In the case of held foreign financial instruments, the information under the previous sentence may be provided to the MC Branch also by the person providing depository services, where these instruments are kept. The MC Branch performs an assessment of the participation of the MC Branch at the forthcoming general meeting taking into account the above criteria, as well as the compliance with investment objectives and limitations. As a result of the assessment, a proposal is prepared to the senior management of the MC Branch, including by preparing a draft power of attorney, which contains details of the forthcoming general meeting, as well as proposals on the manner of exercising the right to vote on each agenda item separately.

The MC Branch shall vote at the general meeting with all financial instruments owned by the Investors and managed by the Branch. Voting rights are exercised through the legal representatives of the MC Branch or through a person authorized by them. In case of authorization, and without prejudice to the special requirements of the applicable legislation, the power of attorney should be explicit for the specific general meeting, in writing and should contain specific instructions on the manner of voting. When the power of attorney gives the proxy the right to vote at his/her own discretion, the latter must exercise the voting rights in the exclusive interest of the Investors. Especially in the case of owned foreign financial instruments, the MC Branch may assign the person providing depository services, whereby these instruments are kept, to represent the Investors in general meetings of the respective issuing companies. In this case, the

authorization should be performed in accordance with the provisions of the applicable law and in compliance with the principles of this Policy.

In case of authorization, a copy of the issued power of attorney is stored in the archives of the MC Branch. At the request of an Investor, the MC Branch provides free of charge an information on the details of the actions taken in connection with the implementation of the above strategies for the exercise of voting rights at the expense of Investors.

The MC Branch exercises the voting rights on shares in companies in which it invests at the expense of Investors - collective investment schemes managed by the MC Branch, in accordance with the *Best Execution Policy*.

## **VI. CONFLICT OF INTERESTS MANAGEMENT**

In addition to the above in this Policy, the MC Branch manages the actual and potential conflicts of interest, related to the shareholding in the companies in which the MC Branch invests, in accordance with the *Conflict of Interests Policy*.

## **VII. POLICY PUBLICATION. DISCLOSURE OF INFORMATION**

The MC Branch publishes this Policy, including its amendments and supplements, on its website within 7 days of the relevant decision of the senior management of the MC Branch.

The MC Branch publishes annually on its website an information on the implementation of the Policy, which contains:

- ✓ General description of the manner of voting by the MC Branch;
- ✓ Explanation of the most important votes;
- ✓ Information on the use of the services of an authorized advisor within the meaning of §1, item 55 of the additional provisions of the POSA;
- ✓ Information on how the right to vote was exercised in the companies in which the MC Branch had invested at the expense of the Investors, except when the voting was determined as insignificant according to the criteria specified in item V above.

The information on the implementation of the Policy shall be published within three months after the end of the financial year in which the right to vote has been exercised, and the information shall remain available until the next publication. Access to the Policy and information on its implementation is free.

## **VIII. ADDITIONAL INFORMATION OBLIGATIONS OF THE MC BRANCH IN CASE OF PROVISION OF PORTFOLIO MANAGEMENT SERVICES TO INSTITUTIONAL INVESTORS**

At present, the MC Branch has not concluded contracts for portfolio management with persons specified in Art. 105b, para 1 of the ACISOU CIA (called "**Institutional Investors**").

***This Policy was adopted by a decision of the Senior Management of "KBC Asset Management NV – Branch" KCHT, Bulgaria on 17.09.2020.***