

PROSPERITY CAPITAL MANAGEMENT

# Responsible investment policy

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11/27/2019

## **OBJECTIVE**

This Policy sets out how Prosperity Capital Management (hereinafter – PCM or Prosperity) discharges its responsibility towards PCM’s clients by promotion of the best corporate governance practices and responsible and balanced social and environmental policies.

## **SCOPE**

This Policy applies for all funds and discretionary mandates managed by PCM and it is required reading for all advisors and analysts. The oversight of the policy rests with the Corporate Governance Team and the Group Compliance Officer.

## **POLICY**

It is our policy not to exclude any investment. The core belief of PCM is that positive results for environmental, social and governance (ESG) work comes from active involvement in companies rather than from exclusion of certain investments. Divestment may be a final option if the results from our active work are not apparent

This Policy is guided, inter alia, by the Principles for Responsible Investment and by the new Russian Corporate Governance Code approved in 2014 (hereinafter – the Code). PCM has adopted the six UN Principles for Responsible Investing and is a signatory of the United Nations Principles for Responsible Investment (PRI), and this policy sets out PCM’s approach in applying the Principles across the investment management business. The best corporate governance principles and recommendations set out in the Code are

addressed primarily to public companies whose securities are traded on a regulated market. Such companies are recommended to disclose information about compliance with the principles of the Code, as well as on the causes of non-compliance with any of these principles. PCM also holds shares of companies that are not listed on a regulated market. PCM strives to implement the best practices of corporate governance and responsible and balanced social and environmental policies in those companies too.

As an active investment manager, PCM advocates high standards of corporate governance, social and environmental policies in investee companies through the following actions:

- Communication, including in cooperation with other minority shareholders, with an issuer's management and controlling shareholder with the aim to promote good corporate governance and, in cases when respective flaws exist, responsible and balanced social and environmental policy.
- Nomination and election, including in alliance with other minority investors, of independent directors and minority shareholders' representatives to the Boards of Directors.
- Being elected to a Board of Directors, PCM's supported candidates endeavour to contribute their best knowledge and experience to the Board of Directors and its committees' work and to further good corporate governance, social and environmental practices. For example, being appointed to a Remuneration Committee, they support incentive schemes which genuinely incentivize executives to pursue strategies which will increase long-term shareholder value and which align the interests of executives and shareholders.
- Active and proactive approach to important corporate actions, including charters' amendments, take-overs, mergers and

acquisitions, large-scale and related party transactions, additional shares' issues, to ensure shareholders' rights' observance during such actions.

- In case of anticipated or actual minority shareholders' rights violations, negotiations with the issuer's management and controlling shareholder (in order to prevent or redress damage to minority shareholders' interests) and complaints to the financial market regulator or lawsuits' filings (in case the negotiations end in failure).
- Control of companies' full disclosure of material information, including disclosures related to corporate governance, social and environmental policies, in accordance with applicable requirements. If information is not disclosed, requests for full disclosure is mandatory.
- Active and informed participation in general shareholders' meetings (hereinafter – "GSM"). In the absence of sufficient information provided by a company on a proposed GSM's resolution, PCM will vote against the resolution.

PCM strongly believes that high quality management and good corporate governance standards, coupled with a strong legal and regulatory framework, drive long-term shareholder value as well as high-standards across the ESG spectrum. Corporate governance is therefore at the very core of PCM's investment process and fully integrated into the entire investment process by having the ESG team form part of the investment team. As a responsible investment manager, PCM considers itself as a co-owner of the respective company and we aim to maximize our impact through active ownership and collaboration. This is very much a pro-active engagement, though we sometimes need to act on unforeseen events. We closely monitor the companies in which we invest, and vote at the

company meetings. In 2018, PCM was an active and informed participant in over 80 percent of the GSMs in our portfolio companies.

## **RELEVANT STAKEHOLDERS**

As an active investment manager, PCM takes a pro-active approach in collaborating with like-minded investors to encourage and promote ESG. PCM cooperates with the Governments, regulators, stock exchanges, international organisations (eg. World Bank) and legislators to improve the overall standards of corporate governance in Russia. PCM's representatives are actively involved with the "Creation of an International Financial Centre in the Russian Federation" Working Group (hereinafter – the Working Group). A think-tank created by the President and entrusted with the task to improve the investment climate in Russia. One of the main priorities of the Working Group is to improve corporate governance in the Russian Federation. Also, PCM's representatives were co-authors of the Code. The PCM's representatives are actively devoted to the following issues:

- shareholders' rights' protection, including protection of dividend rights;
- effectiveness of a board of directors;
- liability of controlling persons, managers and directors;
- disclosure of material information about a public company and its controlled entities;
- significant corporate actions and respective shareholders' rights.

As a responsible investment manager, PCM considers itself as a co-owner of the respective company and therefore it is in PCM's interest and those of our investors that the company is run as efficiently as possible. We closely monitor the companies in which we invest, and vote at company meetings. If PCM comes

across a company with inadequate standards of ESG, this will be raised by PCM and discussed. PCM believes that good corporate governance, high standards of environmental protection and responsible social policies are indicative of efficient management. Cases of serious environmental disregard resulting in spills or other degradation are signals of inefficient management and should be taken into consideration during the investment analysis' process. PCM is a member and one of the founders of the Association of Institutional Investors (former Investor Protection Association) (Russia) since 1999 and are active in its independent directors' nomination, minority shareholders' rights' defence, corporate legislation's enhancement and improvement of the efficiency of corporate governance at state-owned company projects. PCM similarly sees unsafe and unhealthy working conditions as inefficient and detrimental not only to the people affected but also to the financial health of the company. Good working practices are conducive to higher productivity and therefore fully in line with the interests of all shareholders. Accidents and spills will be seen as negative events for the companies and PCM will endeavour to challenge the management whenever possible as to why they occurred and what will be done to minimise such events in the future.

## **INVESTMENT PROCESS**

Prosperity's investment philosophy is based on a long-only, bottom-up, fundamental-value, active investment approach. We seek to benefit from the significant value generated from the ongoing modernisation, restructuring and consolidation processes in our investee companies. We also actively work to improve corporate governance and mitigate corporate governance risks. In general, Prosperity's investment philosophy can be described as a bottom-up search for companies that are adding value through internal modernisation and consolidation.

Prosperity's investment decisions are underpinned by highly-detailed, proprietary investment analysis conducted by the Moscow-based, sector-specialist analysts that form the Prosperity investment advisory team. Prosperity's investment analysis seeks to consider all factors in its consideration of companies and their equity investment opportunities - including ESG matters. In particular, our financial models will include, when applicable, material effects of any industrial accidents/downtimes including staff costs, current and expected environmental regulations, environmental fines, environmental capital expenditure, social costs related to local communities etc.

Moreover, Prosperity strongly feels that environmental and social factors are often led by the quality and effectiveness of corporate governance. That is to say, our experience and understanding is that the better managed companies tend to have appropriate environmental and social policies and actions. Furthermore, poor environmental or social practices, such as avoidable oil spills or poor employee safety measures, are indicative of inefficient management and poorly run businesses. Whilst price and other factors are a consideration, of course, Prosperity generally seeks to invest into fundamentally-sound and well managed businesses.

Therefore, Prosperity is an active shareholder and seeks to behave as a part owner of the businesses in which our clients' capital is invested. As such, we actively seek to engage with owners, management and other stakeholders to drive value in our businesses and, amongst other things to promote better and good governance practices - which in turn will, in our expectation and experience, manifest itself in better environmental and social policies and actions.

The investment horizon should be long-term, with a recommended investment time being typically 3-5 years.

PCM solely uses in-house expertise for the ESG research. This is performed by the advisors and analysts.

## **VOTING AND ENGAGEMENT**

Prosperity Capital Management has adopted a Voting and Engagement Policy.

Prosperity Capital Management believes that voting or proxies is an important part of portfolio management, as it provides the opportunity to be heard and influence the direction of a company. Therefore, Prosperity Capital Management seek to vote all proxies for any client in accordance with these procedures. The objective is to ensure that its proxy voting activities on behalf of its clients are conducted in a manner consistent with the best interests of its clients.

PCM engages with companies and other stockholders, in particular in our top-30 holdings, in situations that are either generally important for ESG or would seriously influence PCM managed funds and mandates' rights/interests as shareholders (including harm to an investee company which influence them derivatively).

We expect that the outcome of our engagements would be the improvement of certain ESG issues at an investee company's level or more generally through laws and regulations.

Scope of our engagement covers mainly portfolio companies, but may also cover other issues in case of general importance to the country and the economy (and possibly subsequently to our portfolio companies). Particular issues that could seriously influence PCM managed funds and mandates' rights/interests as

shareholders (including harm to an investee company which influence them derivatively) are prioritized.

PCM's Corporate Governance Director is responsible for our engagements process to be adhered and annually reviewed. Prosperity tracks and reports our engagement to clients, in case of their request, and to PRI within its reporting framework.

The full policy is disclosed in *Annex 1*.

## **REPORTING**

All the progress in our ESG work will be made public through UNPRI's website and in PCM's annual summary of corporate governance activities.

This policy will be reviewed annually or more frequently should circumstances require it. This policy has been approved by the board of Directors.

*If you require more information on this policy, please email [info@prosperitycapital.com](mailto:info@prosperitycapital.com)*

*Annex 1 Voting & Engagement Policy*

<i>Owner:</i>	<i>Compliance &amp; Corporate Governance Team</i>
<i>Date revised</i>	<i>November 27, 2019</i>
<i>To be reviewed</i>	<i>To be regularly reviewed (normally annually)</i>



PROSPERITY CAPITAL MANAGEMENT

Annex 1

## **Voting & Engagement policy**

### **General**

Prosperity Capital Management Group (“PCM”) has developed adequate and effective strategies for determining when and how voting rights within its funds and discretionary account will be exercised. PCM is an active manager that takes long positions in Russian and Former Soviet Union companies and that votes in instances where respective shareholding is from the core shareholdings list and/or the resolutions are of material interest to its unit holders or discretionary mandates and/or where results of a meeting depend on PCM votes.

PCM’s investment strategy is described in detail in the offering memorandum for the funds and mandates it manages.

PCM actively seeks to communicate with the companies it invests in and acts exclusively in the interest of its unit holders and investors through mandates.

### **Engagement**

Engagement is an integral part of PCM’s research process and our dedicated investment team in Moscow regularly conducts meetings with company management in order to gain a fundamental view on how companies are using their capital and conduct their business. These meetings take place on site at their headquarters, local sites, at investment conferences and in PCM’s offices. ESG issues are part of our engagement and incorporated into our investment analysis and fundamental investment process.

PCM engages with companies and other stockholders, in particular in our top-30 holdings, in situations that are either generally important for ESG or would seriously influence PCM managed funds and mandates’ rights/interests as shareholders. PCM expects that the outcome of our engagements would be the improvement of certain ESG issues at an investee company’s level or more generally through laws and regulations.

PCM decides to engage based on materiality, but has no “minimum asset size” rule for engagements. Particular issues that could seriously influence PCM managed funds and mandates’ rights/interests as shareholders (including harm to an investee company which influence them derivatively) are prioritized. Scope of our engagement covers mainly portfolio companies, but they may also cover other issues in case of general importance to the country and the economy (and possibly subsequently to our portfolio companies).

PCM engagement processes include writing letters and emails, joining collaborative engagements, face-to-face meetings, filing shareholder resolutions, and applications to regulators and courts. In most engagements, PCM relies upon international commitments, policies, frameworks and ESG best practices. If initial engagement fails, PCM normally escalate to pursue the matter. Generally, we don't divest because of failed engagement, unless the financial analysis or trust in management have severely deteriorated.

We track and report our engagement to clients, in case of their request, and to PRI within its reporting framework

## **Proxy voting**

As a matter of policy, Prosperity Capital Management Limited ("PCML") and Prosperity Capital Management UK ("PCMUK") seek to vote all proxies for any client in accordance with these procedures.

PCM Group's objective is to ensure that its proxy voting activities on behalf of its clients are conducted in a manner consistent, under all circumstances, with the best interest of the clients. PCM generally seeks to vote in the same manner for all PCM Funds and mandates.

## **Proxy voting policies**

PCM believes that the voting of proxies is an important part of portfolio management, as it provides the opportunity to be heard and influence the direction of a company. PCM is committed to voting proxies in a manner consistent with the best interests of its clients.

PCM will oppose share issues which dilute shareholders without bringing adequate benefits to the investment, interested party transactions (both in ordinary course of business and asset transfers) which are designed for asset-stripping or transfer of value in favour of majority shareholder(-s) or third parties, excessive management compensation and other corporate abuses. On the other hand, PCM will support measures designed to improve corporate transparency, accountability of managers and directors, share liquidity and the like. PCM will judge genuine business transactions brought to the attention of shareholders on their merits, on a case-by-case basis.

## **Proxy voting procedure**

PCM will have the responsibility of voting proxies received by clients. Each proxy proposal received by PCM will be reviewed and evaluated. Proxy proposals received by PCM will be voted via instructions to the custodian in accordance with the proxy voting policies. Notwithstanding the foregoing, PCM may vote a proxy contrary to the proxy voting guidelines if it determines that such action is in the best interests of the client(-s).

For clients who have retained voting rights and discretion in respect of investments, PCM passes on proxy proposals received to the client and/or its custodian together with a recommendation on how votes should be cast. The client will instruct the custodian on voting directly, or PCM will instruct the custodian in accordance with the client's instructions.

In addition, PCM may choose not to vote proxies in certain situations or for certain clients, such as (a) where a client has informed PCM that it wishes to retain the right to vote the proxy, (b) where PCM deems the cost of voting would exceed any anticipated benefit to the client, (c) where the proxy is

received for a client account that has been terminated, or (d) where a proxy is received by PCM for a security it no longer manages on behalf of a client.

## **Proxy and conflict of interest**

### *Material Conflicts of Interest*

PCM may occasionally be subject to material conflicts of interest in the voting of proxies due to business or personal relationships it maintains with persons having an interest in the outcome of certain votes. PCM and/or PCM Personnel may also occasionally have business or personal relationships with the proponents of proxy proposals, participants in proxy contests, corporate directors and officers, or candidates for directorships. If at any time PCM becomes aware of a material conflict of interest relating to a particular proxy proposal, PCM will handle the proposal by requiring the proposal to be reviewed by PCM's Chief Investment Officer or the PCM Group Compliance Officer who will determine how to vote the proxy in a manner consistent with the clients' best interests.

Last updated - London, November 2019.