# Polar Capital LLP

## UK Stewardship Code Report

POLAR CAPITAL

UK Stewardship Code 2020 Report

This Stewardship Report highlights Polar Capital LLP's ("Polar Capital", the "Firm", "we") approach to stewardship and its compliance with the UK Stewardship Code during the following reporting period: 1 April 2020 to 31 March 2021. Polar Capital LLP is an FCA regulated fund manager and SEC registered investment advisor. Polar Capital LLP is indirectly held by Polar Capital Holdings plc.

As defined by the FRC, stewardship is "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." Within the Code, Polar Capital is classed as an 'asset manager'.

Polar Capital fully supports the new UK Stewardship Code 2020 ('the Code') and seeks to align its activities with the principles of the Code. We believe the new format for the Code based on activity and outcomes of stewardship practices is an important step for accountability and credibility of stewardship practices for the asset management industry.

Gavin Rochussen

**Chief Executive Officer**

**October 2021**

# Contents

# Principle 1:
# Purpose, strategy and culture

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

Polar Capital is a specialist, investment-led, active fund manager with a collegiate and meritocratic culture where capacity of investment strategies is managed to enhance and protect performance.

The Firm's goal is to remain a leading specialist fund management business through a strategy of delivering to professional and institutional clients a range of fundamentally driven investment products that deliver differentiated risk adjusted returns over the long term. Our core philosophy is to focus on investment performance over and above the gathering of assets. We believe there is an alignment of interest between the investment managers we recruit, their focus on delivering superior returns and the interests of professional and institutional clients who are seeking differentiated investment products.

The first principle of our business is to establish a strategy and business model which promotes long-term value for shareholders and other stakeholders. Each year in the Annual Report and Accounts, the Chief Executive Officer (CEO) and Executive Directors describe the previous year's achievements and future prospects for the growth of the business.

In addition to providing clients with superior investment products, we place great emphasis on providing high levels of customer service, operational integrity, independent risk control and compliance supervision. We believe such a combination will enable us to deliver attractive levels of long-term earnings growth and dividend growth to our shareholders.

We have a focus on providing and maintaining an entrepreneurial, vibrant, collegiate and transparent environment for our fund managers and employees as we believe this will become an increasingly important factor in the attraction and retention of talented people.

Polar Capital Group (the "Group") currently has 168 employees of whom 55 are investment professionals managing 30 funds.

These funds have combined assets under management of £20.9bn at 31 March 2021.

### Our core business principles are:

- Emphasis on investment performance
- Institutional robustness across operational, compliance, risk and client relationship management
- Diversified yet complementary range of funds with a focus on fundamental, research-driven strategies
- Culture which is flexible, entrepreneurial and transparent
- Environment for employees in which talent can flourish and be appropriately rewarded
- To encourage high equity ownership among staff
- Conduct our investments as responsible stewards of our clients' capital
- Act as a responsible corporate citizen

Critical importance is being placed by investors and the industry overall on ESG and good stewardship and we recognise that we have a responsibility not only to our clients and shareholders, but also to wider society and the communities in which we operate. We are focused on delivering the best practice that is expected by our clients and continually strive to improve the infrastructure across the Group that will enable our funds to improve their ESG and stewardship capabilities and credentials.

### Business model

Polar Capital operates as a scalable business platform for specialist, active fund management teams and is structured into three main business areas: fund management, operations and distribution. Roles, responsibilities and accountability for responsible investment and stewardship practices lie appropriately within each business area.

### Fund management

We support 16 investment teams, at 31 March 2021, that manage a range of long-only and alternative products, including open-ended UCITS funds and closed-ended investment trusts. The Firm has created an environment in which fund managers can focus on managing their investment portfolios while not being distracted by other day-to-day aspects of running the business.

Our well-established and highly experienced teams have their own clear, defined investment strategies. They are diverse in style but share the characteristics of fundamental, research-driven strategies. They are specialists in their investment style, sector or regional focus, and their investment beliefs and approaches to stewardship reflect this. Each investment strategy has investment autonomy; there is no one-size-fits-all investment approach. Analysis and interpretation of ESG issues is specific to each team. Our fund managers lead their approach to responsible investment stewardship activities and are ultimately the final decision-makers for capital allocation, engagement and voting decisions. They are supported by the Firm's central infrastructure that will enable the funds to improve their ESG capabilities and credentials. More information on sustainability governance and resources is provided under Principle 2.

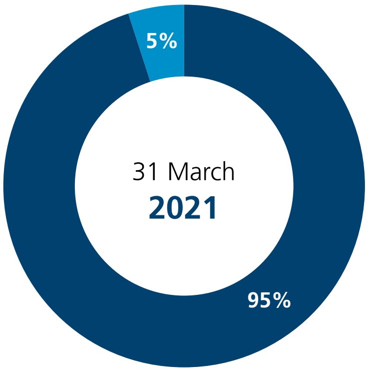
In October 2020, the Group completed the acquisition of the FPA International Value and World Value equity team, establishing the joint venture Phaeacian Partners LLP in the USA. In addition to this, in March 2021, Polar completed the acquisition of Dalton Strategic Partnership LLP, adding a leading European investment team with an established and credible responsible investment process.

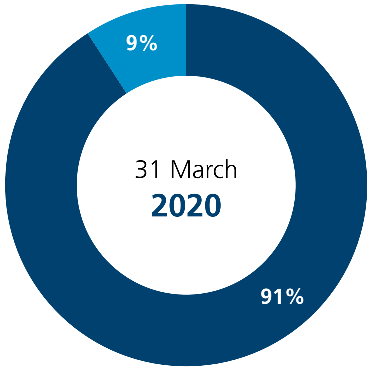
The investment teams making up Phaeacian Partners and Dalton Strategic Partnership shared common philosophies with Polar, being specialist, investment-led active fund managers, which provided an excellent strategic and cultural fit with the existing Polar business.

Detail on the approaches to responsible investment and stewardship of our fund management teams are reflected in Principles 7, 9, 10, 11 and 12.

> Each investment strategy has investment autonomy; there is **no one-size-fits-all** investment approach. Analysis and interpretation of ESG issues is specific to each team.

## AuM split by type

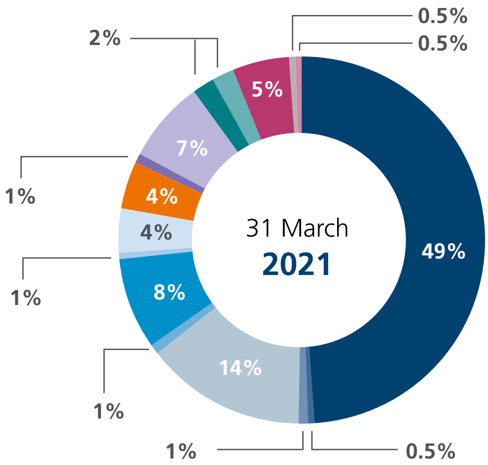


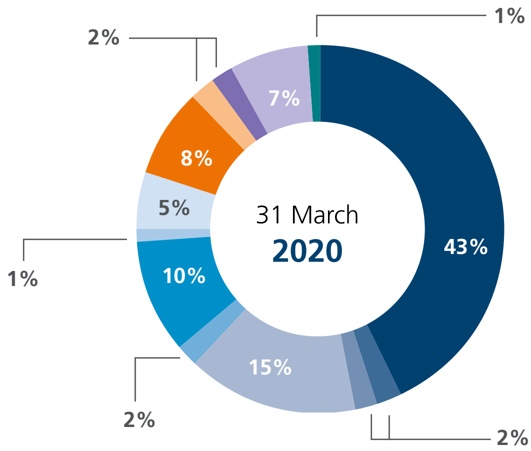




| | £bn | % |
|---|---|---|
| Long-only | 19.9 | 95% |
| Alternative | 1.0 | 5% |
| **Total** | **20.9** | **100%** |

| | £bn | % |
|---|---|---|
| Long-only | 11.1 | 91% |
| Alternative | 1.1 | 9% |
| **Total** | **12.2** | **100%** |

## AuM split by strategy




| | £bn | % |
|---|---|---|
| Technology | 10.2 | 49% |
| Japan Value | 0.1 | 0.5% |
| European Long/Short | 0.2 | 1% |
| Healthcare | 2.9 | 14% |
| Financials | 0.3 | 1% |
| Insurance | 1.7 | 8% |
| Emerging Markets Income | 0.1 | 0.5% |
| Convertibles | 0.8 | 4% |
| North America | 0.8 | 4% |
| UK Absolute Return | – | – |
| European Income | 0.2 | 1% |
| UK Value | 1.4 | 7% |
| Emerging Markets and Asia | 0.4 | 2% |
| Phaeacian | 0.5 | 2% |
| European Opportunities | 1.1 | 5% |
| Global Equity | 0.1 | 0.5% |
| European Absolute Return | 0.1 | 0.5% |
| **Total Assets** | **20.9** | **100%** |

| | £bn | % |
|---|---|---|
| Technology | 5.3 | 43% |
| Japan Value | 0.2 | 2% |
| European Long/Short | 0.2 | 2% |
| Healthcare | 1.8 | 15% |
| Financials | 0.3 | 2% |
| Insurance | 1.2 | 10% |
| Emerging Markets Income | 0.1 | 1% |
| Convertibles | 0.6 | 5% |
| North America | 1.0 | 8% |
| UK Absolute Return | 0.3 | 2% |
| European Income | 0.2 | 2% |
| UK Value | 0.9 | 7% |
| Emerging Markets and Asia | 0.1 | 1% |
| Phaeacian | – | – |
| European Opportunities | – | – |
| Global Equity | – | – |
| European Absolute Return | – | – |
| **Total Assets** | **12.2** | **100%** |

## Operations

Polar Capital maintains a robust and scalable operational infrastructure and system of risk control that ensures that fund management and sales and marketing divisions have the appropriate tools to be effective and support our growth strategy.

Our operational infrastructure provides support to investment teams in the areas of compliance, risk monitoring, IT, product management, finance, and trading. Third-party service providers are used to provide portfolio accounting, custody and back-office services to ensure resources are concentrated on fund management.

Portfolio characteristics (performance, style, macro factor sensitivity, decision-making patterns, liquidity and ESG) are monitored centrally by Polar Capital's Chief Investment Officer (CIO) and Risk team.

Investment teams are supported by Polar Capital's CIO, Head of Sustainability and Risk team, who maintain internal oversight over ESG activities, support voting and engagement practices. Operational support also ensures that administrative tasks around teams' voting activities are conducted centrally, ensuring that voting procedures run smoothly and consistently across the funds, leaving final decision-making to the autonomous investment teams. More information on our Proxy Voting approach and activities are detailed in Principle 12.

## Distribution

The Firm's distribution and marketing teams distribute its products in the UK and internationally to wholesale professional investors only.

This ensures not only that our fund positions and strategies are well articulated to our clients, but also the demands and feedback of clients on key issues are discussed and fed through the appropriate governance structures. For example, ESG matters have been top of the agenda for many clients over the past 12 months. Client relationship managers have actively encouraged and facilitated engagement with clients to learn their requirements, understand the different approaches within each client business, and learn what is seen as best practice. These include both corporate and investment activities, with the information relayed to investment staff, the Head of Sustainability, CEO and CIO, depending on the topic of the engagement.

This has been a key source of information and has informed our actions to improve our sustainability and stewardship practices.

More information about understanding clients' stewardship needs and communication with clients is found in Principle 6.

## Culture

"Polar Capital is proud of its culture, which is underpinned by the people within it. Our people are the heart of our business and attracting and retaining key talent is of utmost importance to the Group. We achieve this by providing a supportive and inclusive working environment with an open-door policy, focussing on workforce wellbeing, establishing a diverse culture where rewards are based on merit, and opportunities are given for personal development." Gavin Rochussen, CEO, Polar Capital

The Firm and the Group take a prudent approach to business management, with a culture of compliance and risk assessment at the heart of everything we do. The Board of Directors continually assesses the Group's ability to maintain high standards. As the Firm's parent is listed on the AIM (Polar Capital Holdings plc), the Firm encourages staff ownership of shares in the business through various share incentive schemes. This enables the interests of our staff to be aligned with shareholders, fosters a sense of loyalty and collegiality, and helps ensure that staff uphold the high standards expected.

During the COVID-19 pandemic and following Government guidance, a work-from-home policy was introduced. The wellbeing and working conditions of all staff are regularly considered and additional equipment for home working was supplied by the Company.

Polar Capital is proud of its culture, which is underpinned by the people within it. Our people are the heart of our business and attracting and retaining **key talent** is of utmost importance to the Group. We achieve this by providing a supportive and inclusive working environment with an open-door policy, focussing on workforce wellbeing, establishing a diverse culture where rewards are based on merit, and opportunities are given for personal development."

**Gavin Rochussen**
Chief Executive

Regular virtual activities and staff video calls were initiated and line managers were encouraged to keep in touch will all their staff and flag if any staff members were having difficulties with their work or home setup. A staff survey was conducted in February 2021 to gauge the feelings of staff, assess how colleagues were coping in the lockdown and whether there were any changes the Firm could make. The results of the survey were considered by the Executive and COVID Committees and helped form their approach to staff wellbeing for the coming period.

During the period of COVID restrictions, a weekly email from the CEO to all staff was circulated to keep them up-to-date with business activity and the ability to use the office when safe.

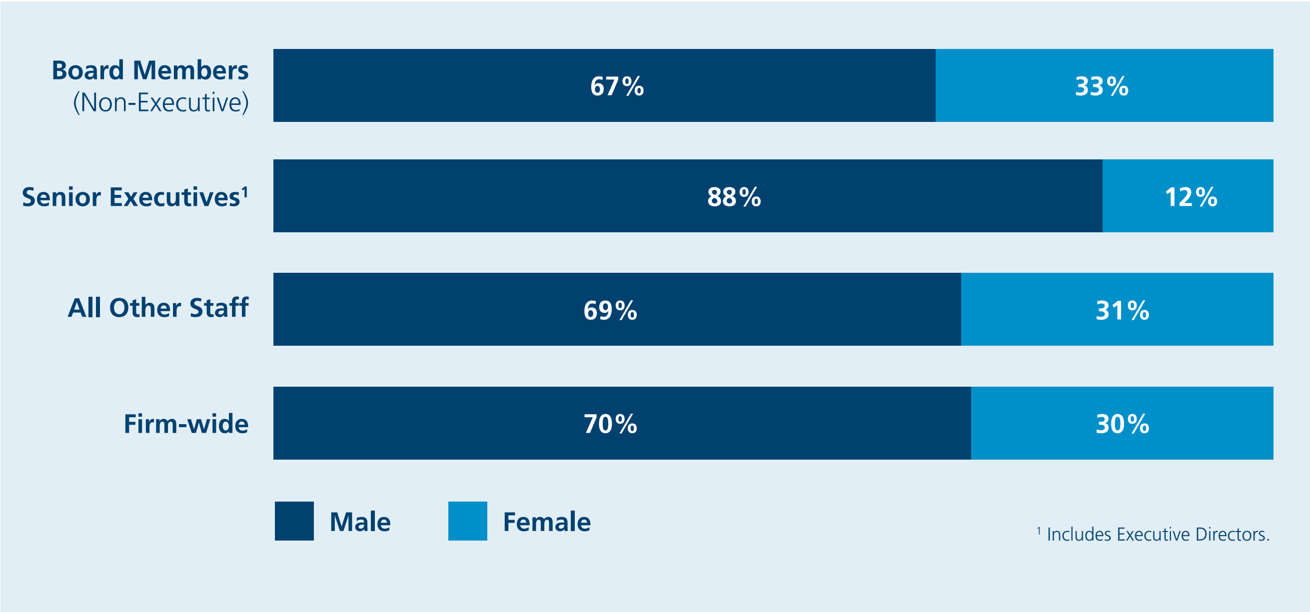
Additional monitoring of key risk and controls intensified with additional training for home working being provided, and the outcomes reported to the Executive Committee and the Board.

The Firm's success is largely dependent on recruiting, retaining, and developing the best financial services professionals. To achieve this, Polar Capital seeks to ensure that working conditions are of a high standard by putting in place effective staff communications, with the ability for staff to engage in management decisions. Polar encourages participation in the success of the business through share awards and has a range of benefits to support staff, including ill-health protection and life cover. The Firm is committed to equal opportunities and diversity in staff selection and opportunities for promotion.

## Staff wellbeing

It is vital that our people are provided with support and opportunities, not only to enhance their careers, but also to optimise their health and wellbeing. We have appointed an external therapist to provide our employees with access to free, independent and confidential support and counselling. We have also arranged talks from motivational speakers and groups like The Samaritans which focus on wellbeing.

**As at 31 March 2021, a breakdown of the Group's staff, including the Board, on a gender basis is as follows:**




## Diversity and inclusion

We believe that having a diverse and inclusive workplace allows us to achieve the best for our business and our clients. We actively promote a culture which enables our employees to be comfortable in themselves and to flourish in their role. We are committed to ensuring our workforce is representative and that all voices and perspectives are heard. We are an equal opportunities employer, and our staff comprise a mix of genders, backgrounds and nationalities.

We aim to ensure that nobody receives less favourable treatment on any grounds, including gender, sexual orientation, disability, background or race.

To highlight its activities in this area, in November 2020 the Firm created a Diversity and Inclusion (D&I) Committee to promote and foster a culture of inclusion and diversity at Polar Capital and within the industry. The committee is made up of a diverse team of individuals drawn from all parts of the Firm, working together to make recommendations on, oversee and monitor the implementation of Polar Capital's strategic D&I goals. The committee also acts as a central point for escalation and review for all diversity and inclusion issues. Towards the end of the reporting period for this report, Polar Capital was in the process of joining the Diversity Project, a cross-company initiative which operates across the investment industry. Various staff members within Polar Capital are part of different workstreams within the *Diversity Project*, including Race & Ethnicity, Gender, Disability, Early Careers, Mental Health and Returners.

Furthermore, to show Polar Capital's increased activity towards promoting and implementing diversity within the workplace, over the reporting period, the Firm participated in the Investment20/20 Programme, an initiative aimed at individuals from non-Russell Group Universities with less privileged backgrounds. Through the scheme, we recruited six trainees in the compliance, client services, marketing, company secretary, operations and finance departments and we aim to participate in Investment20/20 in the future, to continue the diversity focus and help make the Firm more ethnically diverse.

In addition, Polar Capital ensures that all staff are provided with annual 'Equality and Diversity' training in the workplace. This training is provided through a third-party, having been reviewed by the compliance team and tailored to the Firm's policies and procedures. The results of this are monitored and staff must pass (with an 80% mark or above) an assessment.

## Corporate responsibility: Environment and climate

As a firm, Polar Capital is conscious of its environmental impact and aims to manage this through a wide range of measures.

Polar Capital supports the Paris Agreement and the transition to a net zero economy. Over the past year, we have focused our efforts on evolving our understanding of our carbon impact. Polar Capital has worked with a climate consultant to determine its Scope 1 and 2 footprint and has undertaken a Scope 3 emissions gap analysis and modelling exercise, the results of which are published within our Group Annual Report and Accounts 2021.

During 2021, the Firm has expanded its Scope 3 reporting boundary and intends disclosing further details on emissions from across its wider value chain. Polar Capital expects that by expanding its Scope 3 understanding, particularly with regard to the carbon footprint in the portfolios, the Firm will be in a strong position to align climate activities and reporting with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

# **Principle 2:** Governance, resources and incentives

## Signatories' governance, resources and incentives support stewardship.

Polar Capital recognises the importance of good corporate governance and intends to adopt and apply best practice wherever appropriate.

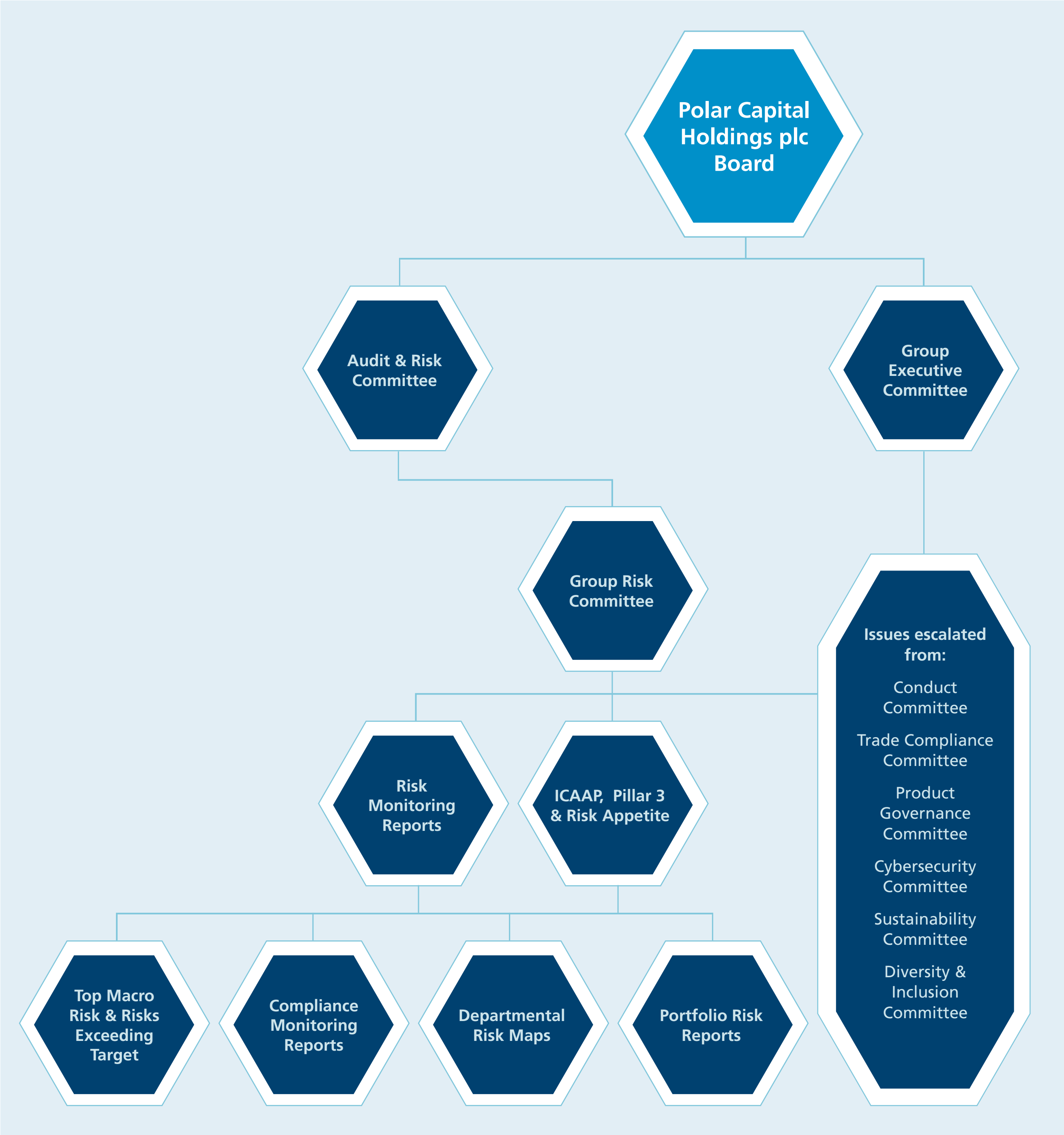
As an AIM-traded company, the Board follows the requirements of the Corporate Governance Code published by the Quoted Companies Alliance in 2018 (the QCA Code). The Board reports on compliance with the QCA Code in the Annual Report and Accounts and therein provides the required disclosures.

In November 2020, the Group established two new management committees, the Sustainability Committee and the Diversity and Inclusion Committee, that report directly to the Group Executive and Group Risk Committees.

The Sustainability Committee is chaired by the Head of Sustainability and comprises members of staff from across the Firm including the CEO, CIO and Chief Risk Officer (CRO). The Committee has been established with the objective of co-ordinating the Firm's and the Group's sustainability initiatives at a corporate level, including implementation of key regulatory and industry advances. The Committee also promotes the sharing of best practice for ESG integration and knowledge insight across the business. The Committee will play an instrumental role as Polar Capital continues to strengthen its ESG position from both an investment and corporate standpoint.

The Diversity and Inclusion Committee is made up of a team of individuals from across Polar Capital and includes the Firm's CEO, working together to make recommendations on, oversee and monitor the implementation of Polar Capital's D&I strategic goals. For more information on the D&I Committee please see Principle 1.

Polar Capital established the role of Head of Sustainability for the Group in November 2020 reporting directly to the CEO and CIO. The Head of Sustainability leads and co-ordinates Polar Capital's sustainability initiatives at a corporate level and acts as a focal point for ESG activity in investment portfolios. This has raised the profile of ESG throughout the business and aims to further develop Polar Capital's integration of ESG factors at fund level and enhance Polar's stewardship capabilities.




The diagram above summarises the key elements of the Group's Risk Framework.

Polar Capital possesses a robust corporate governance framework, which is a key part of the 'G' in ESG and applies at the Group level (in addition to the Firm level application). With regards to environmental and social matters, Polar Capital has specific committees that deal with these issues, namely the Sustainability and Diversity & Inclusion Committees. In addition to this, these committees are chaired and meet on at least a quarterly basis; the meetings are minuted. If there are any, all committees are required to escalate any material issues to the Group Executive Committee and Group Risk Committee (GRC) on a quarterly basis. The GRC will then report any issues to the Audit and Risk Committee and the Board.

Furthermore, the Group operates in several jurisdictions and is therefore subject to the oversight of various regulators and state authorities across those locations. Polar Capital engages with its regulators and relevant state authorities primarily through the Group compliance and finance functions by way of regular mandatory reporting as well as any ad hoc interactions required by changing regulations and requirements. The Audit and Risk Committee and Board receive regular reports from the Group's Chief Legal & Compliance Officer (CLCO) on the Group's regulatory processes and procedures, its risk management framework and its interaction with regulators in different jurisdictions. Incorporating responsible investment and sustainability into these processes is being developed.

## Resources

Polar Capital's fund managers lead stewardship activities and are ultimately accountable for them. The Firm believes this approach is effective as it means that stewardship activities are fully integrated into the investment process.

The fund managers are supported on their engagement with management by a number of central resources, including the Head of Sustainability. There are plans to increase the size of the Sustainability team in the coming period as the Firm believes this is essential to the delivery of best practices in responsible investing and stewardship and meeting the increasingly high standards of clients and the business.

As previously mentioned, the Sustainability Committee consists of members of the Firm from different departments, including the CEO, CIO, CRO, Head of UK Institutional Sales, members of the Legal and Product Management teams and representatives from many investment teams.

## External resources

MSCI ESG data is widely used in the Group's approach to ESG incorporation. Central oversight and monitoring use the company scores provided by MSCI ESG research and ratings. Each company is rated on a scale from AAA to CCC, relative to other companies in the same industry. These ratings are used to give an overall asset-weighted score for each investment portfolio and its benchmark; this analysis is the starting point for discussion in the CIO investment oversight meetings.

Portfolio managers have access to the full specialist ESG research and, as is the case with any conventional third-party investment research, they do not always agree with the ratings. Having access to the reports, however, does allow them to assess the consensus view.

> Polar Capital's fund managers lead **stewardship activities** and are ultimately accountable for them.

The Firm has established a robust Proxy Voting Policy which is reviewed by the compliance team and CIO on an annual basis and more frequently if necessary. Voting is carried out using the Institutional Shareholder Services (ISS) Proxy Voting system, which is managed by a member of the Operations team. Voting recommendations and accompanying research provided by ISS are reviewed by the fund managers, and they retain the final decision and will vote accordingly. The ISS Proxy Voting system enables Polar Capital to cast votes by balancing the best interests of the company concerned over the longer term, while maximising the value of investments for Polar's clients, having considered the advice received from the Proxy Advisor.

*More information on our Proxy Voting approach and activities are detailed in Principle 12.*

Impact Cubed: Impact reporting for the Emerging Market Stars team is conducted using Impact-Cubed, a specialist third-party ESG data provider, which quantifies exposure to UN SDG (Sustainable Development Goals) via portfolio level analysis. This measure is based on Impact-Cubed's methodology which calculates how much of a company's active risk exposure can be mapped to UN SDG's using ESG factor analysis. The results from this methodology are dependent on the links and definitions of UN SDGs, the ESG data sources, and the actual data availability at the company level. This includes the fund's GHG reporting, discloses carbon efficiency based on Scope 1 and 2 emissions per $1m revenue, as well as many other metrics related to the SDGs.

## Incentives

As stated in the Polar Capital Holdings plc Annual Report 2020, the Executive Directors' total remuneration package is structured so that a significant proportion is linked to performance conditions measured over both the short term and longer term. When setting the levels of short-term and long-term variable remuneration and the balance of equity and cash within the package, consideration is given to obtaining the appropriate balance so as not to encourage unnecessary risk-taking, while ensuring that performance hurdles are suitably challenging. This is broken down into fixed and variable pay.

To drive and reward performance against annual objectives which are consistent with the strategy and aligns to shareholder interests, the Executive Directors' total remuneration package provides a deferral element to variable compensation above a certain level to ensure there is a link to the longer-term performance of the Firm. In the year to March 2021, 40% of the bonus was based on profit performance against budget, 30% was based on performance against three financial KPIs and the remaining 30% on strategic objectives. ESG is one part of the Executive Directors' strategic as well as personal objectives.

Polar Capital believes there is an alignment of interest between the fund managers they recruit, their focus on delivering superior returns and the interests of wholesale and institutional clients who are seeking differentiated investment products.

A Polar Capital fund manager has three streams of regular remuneration: salary, a bonus linked to their business unit's ad valorem annual management charge (AMC) profitability and, where applicable, a bonus that is a function of the quantum of performance fees received from products managed by the individual.

> Over the course of the coming year, Polar Capital plans to enhance the scope of responsibility of the **ESG risk** oversight process, incorporating deeper insight into portfolio characteristics.

Additionally, Polar Capital reflects in its policies UCITS, AIFMD & BIPRU remuneration rules which include deferment. Fund managers who receive variable compensation above certain thresholds have a percentage of their variable compensation deferred (into fund holdings and/or shares in Polar Capital Holdings) that vest over three years. Polar Capital believes that this remuneration scheme further helps to align the interests of the firm and fund managers with those of our clients by incentivising long term performance over and above short-term profits, which in turn embraces the objective of sustainability.

Other employees participate in an annual discretionary bonus scheme. The purpose of this scheme is to reward employees for their contributions to the business during the year. The level of bonus payments is determined by reference to the profits of Polar Capital as well as the personal performance of the individual employee and the performance of the particular area in which the employee works. Where profits are reduced, the amount available for distribution as annual discretionary bonuses is reduced.

Furthermore, the Firm's long-term equity incentive plans (including its preference share scheme) deliver rewards in shares in Polar Capital Holdings plc. In this way, reward is linked to the viability of the Group as a whole and is consistent with sound and effective risk management.

**Further information on how Polar Capital takes into account sustainability risks within its remuneration decisions can be found in Polar Capital's Basel II Pillar 3 & Remuneration Code Disclosure Document on our website.**

Much progress has been made on governance and accountability with respect to responsible investment and stewardship practices during the year to March 2021 with the establishment of the Sustainability Committee, Diversity & Inclusion Committee and appointment of the Head of Sustainability. However, with the rapidly increasing focus from clients, shareholders, employees and regulators on responsible investment and stewardship, and raised standards for responsible investment practice, structures and resources are constantly being improved. Over the course of the coming year, Polar Capital plans to enhance the scope of responsibility of the ESG risk oversight process, incorporating deeper insight into portfolio characteristics and notably incorporating climate risk further into the investment and risk management process. Polar Capital also aims to enhance resources to identify and implement the key responsible investment priorities for its funds.

# **Principle 3:** Conflicts of interest

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

Polar Capital has in place a Conflicts of Interest Policy (COI Policy). The policy applies to all individuals working at the Firm and within the Group. It is a document which is reviewed annually and, on an ad-hoc basis.

**The full policy can be found on our website, here.**

**The policy makes reference to, but is not limited to, the following:**

- Explaining what a conflict of interest is.
- Relevant FCA handbook rules around conflicts of interest.
- Acknowledging where conflicts of interest may arise, i.e. with clients and anyone linked to the firm.
- Documenting the way in which Polar Capital manages conflicts.
- Having arrangements in place for the firm to identify, prevent, manage and monitor any conflicts.
- These arrangements are within the policy and include Chinese Walls (i.e. within specific teams), restricted lists, segregation of duties etc.
- Identifying situations which could be conflicts of interest, i.e. when we have an interest that is distinct from that of the clients or investors in the outcome of a transaction undertaken on a client's or investor's behalf.
- The policy outlines any conflict risks that could arise and the arrangements in place to ensure that conflict risks are mitigated. (The Conflicts Inventory section).

**How the Group Policy is followed:**

- All new individual conflicts must be preapproved by the compliance team and are logged internally on the Conflicts of Interest Register.
- All existing conflicts must be reported to the compliance team within 10 days of joining and reviewed on an annual basis as part of the new joiner and annual declaration process.
- Directors of Polar Capital Holdings plc are required to make disclosure of any conflict or potential conflict on appointment and are reminded of this obligation at each board meeting with a register of conflict and potential conflicts maintained by the company secretary.

**How potential conflicts of interest can arise in the future:**

**For individuals:**

- Working from home/office flexibility has the potential to make the management of conflicts of interest harder to manage and monitor. Whether staff work from home or return to work, the main aim over the next 12 months is to ensure controls around conflicts of interest are reassessed (i.e. policies and how staff are monitored).

**For the Firm:**

- New product launches are subject to approval by the Product Governance Committee which includes consideration of potential conflicts (for example the risk of competition or cannibalisation of the existing fund range).
- The risk of fund managers being conflicted through asset gathering rather than performance.
- The fund manager being distracted from investment by other matters such as marketing or administration. Each fund manager typically spends no more than 10% of his or her time on distribution and marketing. Investment in distribution staff, marketing, investor relations and product teams reduces this burden.

The Firm's compliance function monitors conflicts of interests and risks to the business through the risk monitoring programme.

Risk maps assess the impact of a risk on the business and the controls which are in place within Polar Capital (i.e. all staff must get prior authorisation for entering into business arrangements, checking whether the Conflicts of Interest policy was followed and that the conflict of interest is logged/highlighted in the staff member's annual declaration) and the probability of there being an issue in light of these controls.

# **Principle 4:** Promoting well-functioning markets

## Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

It is central to Polar Capital's structure with autonomous investment teams that they focus on specific and systemic investment risks. The oversight function provides additional understanding of these key risk areas.

The Firm, like any business operating in the financial services sector, faces a number of challenges to its successful operation and growth. The principal risks and uncertainties facing Polar Capital are addressed through a risk management framework that provides a structured process for identifying, assessing and managing risks associated with the Firm's business objectives and strategy.

The Board of Polar Capital Holdings plc, through the work of the Audit and Risk Committee, considers the identified and emerging risks inherent in the business model and the management of such risks within the internal control environment. The Board also considers the strategic direction of the Group in conjunction with the Executive, and the strategic report in the Annual Report identifies the key business risks. The Pillar III disclosure document, available on the Firm's website, also describes the risk and control environment.

**Risk Management Framework**

The Group management framework is based on the following pillars and provides adequate and continual support to the Board in order for them to understand, identify, measure, manage and mitigate risks to which the Group is exposed to.

| Identify | Assess | Manage | Monitor | Report |
|---|---|---|---|---|
| Risks are identified and assessed by each business unit department. | Assess the potential impact of each risk and the risk appetite. | Controls are designed and used to eliminate or reduce the extent, nature and/or severity of a specific risk related event. | Regular evaluations are completed to assess the Group's risk exposures over time versus the established tolerance levels. | All significant risks and issues are reported to the ARC and the Board as appropriate. |

**Key market and systemic risks during the preceding 12 months have been COVID-19 and Brexit.**

Polar Capital has internal risk, compliance and legal functions, which it used to identify any risks that stemmed from the pandemic, with assessment of risks on a case-by-case basis with the relevant parts of the business.

## COVID-19

- If any new risk is identified by the compliance team, a new risk map is created and added to compliance monitoring programme (CMP).
- Once the risk is identified, it is then assigned to a specific area of the business.
- Thereafter, the impact of the risk is assessed in its dedicated risk map, the team establish controls to assess the risk and conduct a monitoring test to see whether the controls are being implemented by the relevant individuals. The frequency of how this is monitored depends on the risk.
- A net probability, residual risk and target risk tolerance is assigned, and this is all documented in the relevant risk map and signed off by the CLCO.

**In addition to the above, the CLCO produces a Risk Report for the business which addresses the main risks to the Group:**

- This report includes the top macro risks to the business.
- It outlines the key risks to the firm and identifies if there has been any change from the previous report.
- In last year's report, a key threat identified was the risk of COVID-19 spreading globally to cause major disruptions in supply chains, staff, operations and markets. (We anticipate this risk reducing over the coming year). A COVID-19 Executive Committee was established and the risk map shows:
  - This specific risk was given an elevated score in comparison to other risks.
  - There are appropriate controls and monitoring in place; the risk score remains high until lockdowns are relaxed and markets fully recovered.
- Controls – key investment and operations employees have working from home capabilities.
- IT systems are well developed.
- All major counterparties' Business Continuity Plans have been reviewed.
- Risk team conducts scenario testing on portfolios.
- Quarterly monitoring testing: the pandemic risk was discussed and reviewed with the Executive Committee as was its impact on the business. Additionally, investment risk scenario testing on portfolios monitors the threat of the risk, and discussions with the CIO/CRO on impact of fund performance took place.

In addition, the CLCO also provides a monitoring report on the effectiveness of internal controls. Produced for the Audit and Risk Committee and the Board, this sets out Polar Capital's review of the effectiveness of its system of risk management and internal controls. Moreover, it uses the FRC guidance: The FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The information below aims to address the outcome for Principle 4, given in the UK Stewardship Code guidance.

Furthermore, the monitoring report references a specific COVID-19 report. This COVID-19 report highlights the decisions and actions that were taken to mitigate this risk. It includes points around business continuity (and how Polar Capital successfully implemented its business continuity plan ahead of lockdown), staff working and travel arrangements (i.e. around how business travel to affected areas was cancelled) and that a COVID Committee was formed to identify and manage any ongoing and emerging COVID-19 risks. In line with this COVID-19 risk, other risks were identified in the report as areas that may be affected due to this heightened pandemic risk, such as staff awareness around cybersecurity and market risk.

In addition, the COVID Committee met weekly to discuss the impact of the pandemic on the business and within departments, which included closely monitoring staff wellbeing and the application of government guidelines. Fund performance was also reviewed; operationally, the business was well prepared but there was a high risk of the impact of the pandemic affecting financial markets. The CEO provided weekly reports to staff throughout the lockdown period and all employees were made aware of the Firm's decisions concerning the pandemic.

A COVID-19 monitoring report analysed client and counterparty communications. It highlighted that clients, investors and counterparties were issued with details of Polar Capital's COVID-19 arrangements (i.e. work from home arrangements/ infrastructure). This was in the form of a letter from the Group's CLCO, an extract from which is below:

"…As of close of business on 19 March 2020, Polar Capital decided on full invocation of its Business Continuity Plan with all employees being asked to work remotely in line with the latest government advice. This has followed a period of phased office-to-remote working across the business during the course of the last few weeks in response to emerging advice…"

In addition, a COVID-19 update was issued by Polar Capital's CEO. It assured clients that Polar was focused on maintaining high standards and delivering a premium service during the pandemic, i.e. by encouraging online communication.

Such openness showed our commitment to transparency with investors, clients and other parties on what actions were taken to maintain efficiency internally within the Group.

## Brexit

The arrangements between the UK and EU financial services authorities following the end of the Brexit transition period have had a low impact on Polar Capital, but still posed a market and systemic risk to the Group. However, Polar Capital put in place effective contingencies to ensure continued access to Europe following the completion of Brexit in anticipation of the most severe 'hard Brexit' outcome.

## UCITS

- Investment Management: **Polar Capital LLP has been approved by the Central Bank of Ireland (CBI) as the UCITS' investment manager, as it is deemed by the CBI to be a substantive and appropriately competent, skilled and experienced investment manager (through its FCA authorisation). This is the same process that our new US entity, Phaeacian Partners LLC has gone through as sub-advisor of an Irish QIAIF. This arrangement has continued post-Brexit. Separately, the FCA agreed a memorandum of understanding with ESMA and EU regulators which allows Polar Capital to continue to act as the investment manager of the Polar Capital UCITS fund post-Brexit. In the event that co-operation between the FCA and other EU regulators changes, Polar Capital LLP will be able to continue to manage the UCITS funds by virtue of its CBI authorisation.**
- European distribution: **The UCITS Funds have their own passport and authorisation to be marketed into the EU. The Polar Capital Group established Polar Capital (Europe) SAS, a Paris-based EU AIFM with MiFID top-up permissions allowing us to passport our UCITS Funds into all EU jurisdictions. This entity will be carrying out the marketing of the Polar Capital Funds Plc UCITS Funds throughout the EU.**
- UK distribution: **The UCITS Funds are currently recognised by the FCA and registered for sale in the UK. The UK introduced the Temporary Permissions Regime (TPR) for inbound passporting EEA funds, which includes Irish funds that are registered for sale in the UK. The TPR allows Polar Capital to continue to market the Polar Capital UCITS sub-funds into the UK and sell to UK investors post-Brexit and will be in place for three years, starting from 31 December 2020, the end of the Brexit transition period. Polar Capital will assess the best options available for UK investors following the end of this temporary period.**

## Investment Trusts

Brexit has had a minimal impact on Polar Capital managed Investments Trusts as they are UK-domiciled products, managed by a UK manager and not marketed outside the UK.

## ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) sets out the Group's risk appetite statement and financials together with scenario analyses and stress testing to determine how the realisation of risks might impact on the Group's capital and regulatory requirements.

Determining the impact of the ICAAP involves the use of internal and external data, various sensitivity and stress/scenario testing of the key risks and an assessment of how the Group mitigates these risks, i.e. by the use of available systems and management controls or by increasing levels of capital as a precautionary measure.

The ICAAP goes through a robust review process internally and it is extensively reviewed and challenged by the Group Risk Committee and has had senior management approval throughout the development of the ICAAP report and thereafter is presented to the Audit Committee and Board of Directors for further review, challenge and final approval.

Polar Capital has been involved in a number of responsible investment and stewardship-related initiatives over the past year. Polar aims to increase participation and contribution to such initiatives over the coming period.

**Polar Capital's employees are actively involved in industry-wide initiatives and forums to promote well-functioning markets, that include:**

UN Principles for Responsible Investment

Climate Action 100+

Investment Association - EU SFDR Implementation Forum

Investment Association - Stewardship Reporting Forum

Investment Association - CEO Forum

Investment Association - Buyside Trading Forum

Independent Investment Management Initiative - Responsible Investment Forum

#includedAWM

Investment 20/20

# Principle 5:
# Review and assurance

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

Polar Capital's compliance team reviews all policies at least annually. If any amendments and adjustments need to be made, they are completed on a case-by-case basis – for example, when there is a change in regulation or a recommendation is made by the FCA and/or external consultants. Changes are also logged by the compliance team.

The compliance team updates these policies through careful assessment and checking whether all references are still current. For example, they ensure that all FCA handbook references are updated and remain valid. The policies are then sent to the Head of Compliance to review and approve. Final sign-off and review is done by the Group's CLCO.

As an example, with the increased awareness and implementation of ESG practices (such as the Sustainable Finance Disclosure Regulation – SFDR) across the industry, Polar also updated its ESG Policy, a copy of which can be found on the Group's website.

Polar Capital's compliance monitoring program monitors different risk areas across the Firm and, where certain policies apply, the relevant member of the compliance team conducting the monitoring, will test whether the policy is being adhered to. Both the Head of Compliance and CLCO then review the reports drafted and have final sign-off. If any issues/discrepancies are found, they will be escalated to the CLCO and remedied. If a policy/procedure is not being followed, controls will be re-assessed to determine whether additional or new controls should be put in place to ensure compliance in the term.

Key procedures also include the annual declaration made by all members of staff which requires attestations of knowledge, understanding and compliance with key policies and procedures. On a quarterly basis, staff are also reminded of key policies which outline procedures in place – for example, the Conflicts of Interest Policy and Market Abuse Policy. All staff are required to undertake compliance training on an annual basis. There are certain key modules that all staff are required to complete, including anti-money laundering, anti-bribery and corruption, conflicts of interest and market abuse among others, and modules that are undertaken according to role, such as client-facing positions. Training includes compulsory assessments. Training completion is monitored by the compliance team.

### Shareholder Rights Directive II

In 2021, Polar Capital produced its first Shareholder Engagement Policy, pursuant to the Shareholder Rights Directive II, which is published on the Firm's website. This policy was developed to outline how Polar Capital engages with its investee companies through the course of its management of the funds, including monitoring of, and dialogue with, investee companies, co-operation with other shareholders, communication with other stakeholders and management of conflicts of interest.

A copy of the policy can be accessed here.

### ESG

**The ESG work being undertaken, including the implementation of SFDR, can also apply to these two points in the UK Stewardship Code guidance:**

- **"what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach;**
- **how they have ensured their stewardship reporting is fair, balanced and understandable."**

Polar's stewardship reporting is provided through due diligence and client requests, fact sheets and annual reviews.

In due diligence requests, stewardship activities are provided by and reviewed by the fund management teams and, since the role was formed, the Head of Sustainability. Any fact sheet ESG or stewardship disclosures are produced by the investment teams and reviewed by the compliance team. ESG and stewardship disclosure in the annual report is produced by the Head of Sustainability in conjunction with the Sustainability Committee. The Polar Capital Holdings Board of Directors is the accountable body for producing the Annual Report and Accounts.

This UK Stewardship Code Report has been prepared by the Head of Sustainability and reviewed and approved by the Executive Committee and Group Risk Committee under the authority of the Board of Directors.

## Independent assessment on our ESG and stewardship activities

Each year our policies and UN Principles for Responsible Investment (PRI) application is updated.

Polar Capital is A-rated by the PRI for 'Listed Equity – Incorporation', and also A-rated for 'Listed Equity - Active Ownership.' The company is currently B-rated for 'Strategy and Governance.' Given the strides made across many areas in the Firm – senior appointments, increasing collaboration with other industry participants, deeper ESG integration across a higher proportion of the assets the Company manages and a number of other marked improvements – we expect improvement in our PRI ratings in the near term.

As mentioned above, the compliance team monitor all activities within the business and produce risk maps specific to each risk area within the Group. An ESG risk map reviews all ESG activities and processes in place. Some of the monitoring testing areas of the ESG risk map include:

- **Reviewing risk reports for ESG oversight.**
- **Reviewing the UN PRI requirements and disclosures made by Polar Capital.**
- **Reviewing regulatory developments and requirements within the ESG landscape.**
- **Reviewing whether the proxy voting policy and procedures are followed.**
- **Reviewing the Group level approach to ESG.**
- **Review of disclosure information (e.g. after SFDR implementation).**

Compliance monitoring takes a risk-based approach with ESG testing being completed on a quarterly, six-monthly and annual basis. As the area expands in size, more monitoring areas will be added to ensure stewardship and ESG developments are met and achieved.

## Internal controls

The Board has overall responsibility for the Group's system of internal controls including its risk management framework, compliance and financial reporting.

Polar Capital's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It is recognised that such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. Any incidents are reviewed to ensure there are no systemic issues and additional controls are put in place to prevent recurrence.

The Audit and Risk Committee as part of its role, has reviewed and monitored the effectiveness of the internal controls for the year ended 31 March 2021 and concluded there was a satisfactory process in place to identify and manage such risks.

# **Principle 6:** Client and beneficiary needs

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

## Clients

Polar Capital LLP provides investment management services to professional and institutional investors. Our goal is to help them achieve their long-term investment objectives.

## Communicating with our clients

Polar Capital interacts with our clients through our client services, distribution and investment management teams. All teams maintain contact with our clients through meetings (including interviews with appropriate media outlets and direct meetings with shareholders), presentations and an annual investor day. The content of these meetings ranges from fund performance updates to initiatives that Polar Capital is involved in and the frequency of these meetings differentiates on a case-by-case basis.

**During the year, 4,032 client meetings were held, in 905 of which a fund manager was present.** The Board of Directors receive a report on distribution and client servicing at each Board meeting.

Over the reporting period, the Firm has increased engagement with clients and shareholders on ESG and stewardship significantly. These interactions have been valuable in informing our approach to incorporating ESG and stewardship at a fund level as well as understanding the expectations of clients for corporate sustainability.

Polar Capital has continued to invest in its distribution capability, in particular its marketing function and team, expanding and enhancing the way in which we communicate with clients. 2020 witnessed an acceleration of many of the initiatives already in place.

A particular area of focus has been digital marketing, which, having been in the ascendency over the past decade, saw a significant increase in its use by clients in lieu of face-to-face contact. Fund selectors have embraced remote servicing and the feeling of proximity offered by an increased digital presence. Having a strong digital platform, coupled with an insightful content offering, has become an area of differentiation and competition for fund groups.

Since January 2020, we have completely overhauled our digital marketing infrastructure, (re)launching six websites, including one for our US affiliate, Phaeacian Partners; a separate website for Polar Capital's US business – which includes a dedicated site for institutional investors – plus our three managed investment trusts. Driven by our digitally led approach to fund promotion, the Polar Capital website has seen an increase in traffic of 150% over the reporting period. Our webcast programme, launched in April 2020 in response to lockdown, has seen 20 fund manager updates reaching 2,400 clients, a quarter of which were potential new clients, and has helped to support our aim of broadening and diversifying our client base.

The impact of our marketing is reflected in the latest results of Broadridge's annual Fund Buyer Focus report, where Polar Capital ranked 2nd in the UK for Brand Preference. In times of market stress, fund manager access has been especially important to fund selectors and in a separate survey by Broadridge, Polar Capital ranked 5th in the UK for fund manager access.

Our client base is diversified by geography and client type. Over the past year we have focused on extending our distribution capability in the North American and Nordic markets. For example, we have recently formed a new entity called Phaeacian Partners LLC, an SEC-registered Investment Adviser to increase Polar Capital's North American presence. Additionally, we have increased our focus on building our institutional distribution channel. With the arrival of new clients, Polar faces new priorities for ESG incorporation and stewardship. As we build these relationships, we have actively engaged to learn what is expected of fund managers following the highest quality practices.

On a monthly basis, we provide a fund fact sheet which gives details on portfolio positioning, holdings, performance and a commentary on each of Polar Capital's funds. This is emailed by the 10th business day of each month to fund investors. In addition, a portfolio valuation is sent out monthly, with a lag, and an interim manager report is sent to clients every six months. The fund managers prepare updates on an ad hoc basis whenever there is something specific to discuss and Polar Capital will always respond to any client requests as they arise. Attribution reports are made available on request, as well as semi-annual DDQs. Further to this, a copy of the Fund Prospectus is available on the website.

Polar Capital's sales, product management and marketing teams are responsible for producing all investor reporting, published on a monthly, quarterly, bi-annual and annual basis. These teams will also respond to requests for information on an ad-hoc basis.

We communicate directly with clients during their due diligence on our funds. Increasingly, ESG and stewardship practices are a core element of this, and we communicate with clients openly about our ESG and stewardship policies and activities at a Firm and fund level.

In the 12 months to March 2021, in addition to regular reporting through fact sheet commentary and annual report updates, we produced 120 investment insights that were sent to clients and published on our website. The topics ranged from market updates and analysis of key events from our specialist fund managers to ESG-related insights.

**Relevant responsible investment insights included:**

- North American Fund: ESG paper
- Responsible biotechnology
- ESG and the financials sector
- ESG investment opportunities in China
- Emerging Market Stars Team: sustainability paper
- Global Insurance: sustainability insights

## Communication with shareholders

Shareholders are key beneficiaries of our Group. The ongoing support and engagement of our shareholders is vital in helping us deliver our long-term strategic objectives and grow the business.

Roadshows are arranged each year after the annual and interim results to allow the CEO, Executive Director and the Finance Director to meet with potential and existing shareholders to discuss the financial performance of the Group.

Our 2020 AGM was held behind closed doors due to the restrictions on travel and meetings imposed by the COVID-19 regulations. However, engagement was encouraged with a dedicated email address for shareholders to submit questions before the meeting and all voting carried out by proxy. No questions were submitted, and the proxy votes were disclosed on the website following the meeting, showing a comfortable majority in favour of each resolution.

The 2021 AGM was held in September at the head office of the Group and provided the opportunity for shareholders to attend and to engage directly with the Board and senior management. Two shareholders attended and received answers to their questions. The results of the voting at the meeting were disclosed to the London Stock Exchange and on the Group's website. The Chairman is available to meet major shareholders without the Executive Directors present to permit direct feedback and he contacted key shareholders offering a meeting following the publication of the annual results.

## Other responsible investment, stewardship and sustainability communications

### UN PRI

Polar Capital is a signatory of the UN Principles for Responsible Investment and is committed to upholding the Principles. We made our first report to the PRI in early 2020, we received a B-rating for 'Strategy and Governance', an A by the PRI for 'Listed Equity – Incorporation', and an A-rating for 'Listed Equity - Active Ownership'. Given the strides made across many areas in our business – senior appointments, increasing collaboration with other industry participants, deeper ESG integration across a higher proportion of firm assets and a number of other marked improvements – we aim to see improvement in our PRI rating in the upcoming report for 2021.

**Our 2020 Transparency Report can be found on our website.**

### Annual Report

Each year we report a number of stewardship-related factors in our Annual Report and Accounts, with disclosures in the Directors' Duty Statement Section 172 Statement under the Companies Act and a Corporate Governance Report against the QCA code. A number of these have been included in this Stewardship Code report under Principles 1, 2 and 3. Strategy and identification of systemic risks also form part of this report.

For our Annual Report and Accounts for March 2020, we included a section on our ESG and Stewardship practices for the first time. For the year-end March 2021, we have incorporated a broader sustainability report in the Annual Report and Accounts, covering recent corporate sustainability and responsible investment developments and initiatives at Polar.

**More information from this report can be found on page 34 of our annual report.**

**An area for improvement:**

In our Annual Report and Accounts, we reported our greenhouse gas (GHG) emissions and energy consumption in line with the Streamlined Energy and Carbon Reporting. However, we acknowledge that our largest GHG emissions come from indirect activities, and therefore we voluntarily disclose Scope 3 emissions for relevant categories where data is available.

Over the course of 2021, we plan to expand our Scope 3 reporting boundary by disclosing further emissions from across our wider value chain. By expanding our Scope 3 understanding, particularly with regards to our portfolio carbon footprint, we will aim to align climate activities and reporting with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

### SFDR

On 10 March 2021, the EU's Sustainable Finance Disclosure Regulation (SFDR) came into force. The regulation, that requires Polar Capital to provide information on its approach to sustainability at both investment manager level and fund level, will be a crucial step in steering the European and global financial system towards a more sustainable future. We are pleased to have five funds that, under SFDR, are classified as promoting environmental or social characteristics, and are therefore classified as Article 8. These are the Global Insurance, Emerging Market Stars, Asian Stars, China Stars and Polar Capital China Mercury funds. In addition, two strategies run by the recently acquired Dalton Strategic Partnership LLP are also classified as Article 8 under SFDR.

Information on the consideration of ESG risks by all our funds in scope of SFDR is included in the pre-contractual disclosure of each fund. In addition, for Article 8-classified funds, further information is provided on the sustainability characteristics on each fund's webpage, and additional reporting on the attainment of these characteristics will be provided in the periodic reporting of the funds from 2022.

## Voting record

Our voting records are published annually on our company website and are detailed under Principle 12.

### An area for improvement:

We recognise the call for greater transparency on engagement and voting activity, so we intend to strengthen our reporting of active ownership at a fund level to provide relevant, timely information to our clients.

While we communicate directly with beneficiaries and clients through meetings, roadshows and our AGM, to name a few examples, we understand that we must increase our client interaction for the next reporting period. We will explore different ways of interacting with our clients, for example, the periodic sending of surveys to clients with a broad range of open-ended questions. This will add to the numerous communication methods that Polar Capital currently uses and provide valuable feedback on expectations.

Furthermore, we will measure the effectiveness and assess any reasonable views shared by our clients for each new proposal that we plan to implement. Thereafter, we will aim to provide our clients and beneficiaries with periodic updates on how we have incorporated their views and measure the effectiveness of whether the proposals are in line with Polar Capital's stewardship and investment activities.

# **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.

Active management providing long-term fund performance for our clients underpins what we do at Polar Capital.

To achieve this, our investment teams benefit from a devolved structure, where each investment team has autonomy over their own investment strategy, and where there is no one-size-fits-all investment approach. As such, analysis and interpretation of ESG issues is specific to each investment team.

Consideration of ESG issues is not new. It has been part of the research and evaluation process used by Polar Capital's fund managers for many years and incorporated in their assessment of the risks and opportunities facing companies in which they may invest.

ESG factors can influence an investment team's view of a company's growth rate assumptions, competitive position and the discount rate used in financial models. We do not view ESG questions as non-financial. These issues have the potential to affect the long-term financial profile of companies in the same way as more obvious financial considerations such as sales, margins and asset returns.

## Risk assessment

The autonomy of each of the investment teams means that they can use a variety of information and data sources to assist with their assessment of, for example, a company's financial reports, a company's ESG and other non-financial reports, third-party ratings and information from other data providers.

This level of investment autonomy is central to Polar Capital's approach. Nevertheless, portfolio characteristics (performance, style, macro factor sensitivity, decision-making patterns and liquidity) are observed and monitored centrally by Polar Capital's CIO and risk team. ESG monitoring is an integral part of their oversight process.

The risk team monitors each portfolio's ESG characteristics every month and circulates the results to the portfolio managers. Each strategy is then reviewed in detail every four months in a meeting with the lead fund managers. Analysis of each strategy's ESG profile is part of this process.

Polar Capital's ESG monitoring uses company scores provided by third-party research. Each company is rated on a scale from AAA to CCC, relative to other companies in the same industry. Polar Capital's ESG oversight reports list the five weakest scores for every strategy in each of the E, S and G categories. This gives an overall asset-weighted score for each portfolio and its benchmark, the analysis of which is the starting point for discussion in oversight meetings.

Over the coming period, we will enhance our ESG oversight process to include further ESG considerations, such as carbon emissions risk management and norms and controversies-based screening oversight.

Portfolio managers have access to this specialist ESG research and, as is the case with conventional third-party investment research, they do not always agree with their conclusions. Having access to the reports, however, does allow fund managers to assess what the consensus is saying.

## Stewardship and engagement

Polar Capital's engagement activities are a key aspect of the investment teams' wider investment process, and these are specific to each team within the Group. An active, bottom-up approach to engagement and voting is an essential way for Polar Capital's fund managers to enact active ownership and perform their duty as stewards of their investors' capital.

While we are not activist investors, we engage with companies where we feel it will have a positive impact on that company's performance and enhance shareholder value.

Polar Capital's fund managers approach engagement in a measured way as long-term investors. Fund managers frequently meet company management; meetings are used as an integral part of the analytical process that drives investment decisions. This is typically the forum in which our fund managers raise strategic ESG issues such as capital allocation, board make-up, remuneration criteria and specific environmental and social questions. These discussions can often help investee companies with required ESG disclosures and will involve executive management as well as, where necessary, key non-executive directors.

Additionally, as outlined in Principle 2 and discussed in more detail in Principle 12, the Group also utilises and works alongside our proxy voting provider, ISS. The ISS Proxy Voting system enables Polar Capital to vote by balancing the best interest of the company concerned over the long term, in conjunction with maximising the value of investments for our clients, having considered the advice received from the Proxy Advisor. The Group Proxy Voting Policy is adhered to and followed, and is monitored by the compliance team on a quarterly basis. The compliance team ensures the policy is reviewed by the CLCO/designee on a quarterly basis and reviewed by the CIO at least annually. Any digression from the policy will be monitored throughout the year, either by a periodic review of proxy votes by the CIO and the operations team, a periodic spot check by the compliance team to ensure that proxies are being voted consistent with the Proxy Voting Guidelines, and a review of proxy votes by the investment teams.

## Exclusions

All Polar Capital funds adhere to formal exclusions on all companies linked to the production and/or marketing of controversial weapons (cluster munitions, antipersonnel mines, depleted uranium etc). Polar Capital also considers EU sanctions, the US OFAC list and UN-sanctioned entities.

## Case Study: Emerging Market Stars ESG integration

With 20 years of sustainability heritage, the Emerging Markets & Asia Team have designed a 'third-generation' approach where they integrate not only ESG, but sustainability in a broader sense. The ESG analysis is done by the same investment experts as the fundamental analysis, and then quantified and fully integrated into the way they analyse a company's potential value creation.

Their approach is born of a belief that the current ESG standard in the industry is too narrowly focused on the more static and backward-looking E, S and G factors. They staunchly believe analysis needs to go further and move beyond this more simplistic framework to incorporate the forward-looking and more strategic aspects of a company's risk and opportunity set.

They define sustainability as the ability and resilience of a business model to endure over time, asking 'how long-lasting is the value creation of the business?'. Their analysis focuses on understanding what opportunities and risks could serve to lengthen and shorten that, with their conviction being that over the longer-term it is sustainability factors which have the greatest ability to cause change.

The team's prime objective is to deliver attractive levels of absolute and relative returns over the long term. However, they are also mindful of risk, defined as a permanent impairment of market opportunities and lost creation of economic profit. In addition to traditional risk factors, they increasingly believe that E, S and G factors play a profound role when it comes to real risk and need to be incorporated into true assessments of responsible returns.

Their ESG analysis scores companies on the status quo of their operations, or current level, but also on future direction to analyse the longer-term risks and opportunities, how they are being managed and what that means for the delta and potential alpha generation. Secondly, they focus their analysis around materiality, formulating their own proprietary Stars' Materiality Matrix to do so.

Their process integrates Sustainability Delta directly into a company's EVA valuation model via the fade rate. This links the analysis with determining the duration of the competitive advantage period over which a company is able to generate a return on invested capital in excess of its weighted average cost of capital (WACC). Material ESG factors are also directly linked to an adjustment of the WACC, to reflect an upfront adjustment to the risk profile and EVA spread.

The team feel that popular approaches which favour using terminal values (often based on estimates of long-run GDP growth) or exit multiples (often linked to average market multiples) are intrinsically flawed. These methods result in very little control or transparency of what is going on in the business. They identify a few key value drivers which they believe have a very real influence on the company's medium to long-term evolution and on which they are able to take a differentiated view. They use an EVA valuation distribution curve with three scenarios for all stocks invested in. The Sustainability Delta therefore has a direct and significant influence on the final stock selection as well as the final portfolio construction.

## Case study: Technology Team

The Global Technology Team monitors its portfolio holdings exposure to, and management of, material ESG risks. The Global Technology Fund reduced its position in Peloton on both social impact and governance concerns following the news that the company was refusing to comply with a CPSC recall order over a treadmill design flaw which tragically resulted in the death of a child. The team was disappointed with management's failure to take full responsibility for their product's safety, and that this approach brought with it an elevated level of risk from a reputational and regulatory perspective. They are also extremely wary of such short-term thinking from management teams in industries and subsectors that will take many years to play out. They expect their companies to react swiftly, responsibly and decisively to safety issues in the interests of protecting their users, brand and shareholders, and to operate their businesses with a view to maximising long-term returns for all their stakeholders.

Examples of our investment teams' ESG integration practices, as well as engagement and voting activities and outcomes are detailed in Principles 9-12.

# **Principle 8:** Monitoring managers and service providers

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

Service providers play a key part of Polar Capital's aim of supporting stewardship. With the rise of ESG and stewardship over the past few years, the Firm aims to enter into agreements which support these two topics.

With the growing subset of third-party service providers claiming to promote and provide accurate ESG and stewardship services/data, the Group is cautious in its approach before entering into agreements with any other party within the field. For this reason, any agreements entered into with service providers must first be vetted and approved by the Firm's Legal team. Additionally, the final sign-off for these arrangements is with an individual who is at least a Director of the Firm.

### Proxy voting

As mentioned in Principle 2 and Principle 7, the Firm utilises and works alongside the proxy voting provider, ISS. The ISS Proxy Voting system enables Polar Capital to vote by balancing the best interest of the company concerned over the long term, in conjunction with maximising the value of investments for its clients, on consideration of advice received from the Proxy Advisor.

To ensure the Group Proxy Voting Policy is adhered to and followed, it is a requirement within the policy that the following areas are monitored periodically:

1. Annual review by the CLCO or designee of the adequacy and effectiveness of the procedures listed within the policy.
2. A periodic review of the proxy service vendor by the CLCO or designee, who is a member of the compliance team.
3. A periodic review of proxy votes by the CIO and operations team.
4. Spot check to ensure that proxies are being voted consistent with the proxy voting guidelines:
   - Proxy voting guidelines are that the investment team will generally vote in line with ISS, however they are able to vote in another way if they believe this is in the best interest of their fund.
   - Proxy voting is sent to the compliance and risk teams for periodic testing on a rolling annual basis.
   - Where ISS votes against management, this is noted by the Firm's Operations team.
5. Review of proxy votes by investment teams:
   - The Compliance team periodically checks proxy votes for all funds and makes an assessment of whether all fund managers are voting in line with the service provider.

### MSCI ESG Manager

Constant and ongoing engagement is conducted with MSCI ESG Manager, our primary ESG research and data provider. This is done informally and seeks to cover a range of issues, including engaging with the provider on accuracy and timeliness of data, coverage data and investigating methodologies and changes to those methodologies. This also encompasses understanding new products catering to the increasingly high standards of our fund management teams and oversight process, such as further climate data, business involvement and norms and controversies data. More information on the enhancement to our central data offering will be provided in the coming months.

In-depth analysis of various ESG ratings and research providers, norms and controversies research providers and climate data providers is being conducted over the reporting period and into the latter part of 2021 to ensure that Polar Capital's service providers are delivering the services that best suit our needs.

Polar Capital's compliance department undertakes a formal process with third-party service providers on a regular basis to review the levels of service provided to the Firm or its clients including investors in the funds. This process is supplemented by the day-to-day interaction with the third-party service providers which allows senior management to review the arrangements and risks inherent in outsourced services. The Firm's sales and investor support teams keep in close contact with existing and potential investors in our funds.

# **Principle 9:** Engagement

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

Polar Capital's engagement activities are a key aspect of the wider investment process which, given the principle of investment autonomy, is undertaken differently by investment teams within the company. An active, bottom-up approach to engagement and voting is an essential way for Polar Capital's fund managers to enact active ownership and perform their duty as stewards of their investors' capital. While we are not activist investors, we engage with companies where we feel it will have a positive impact on that company's performance and enhance stakeholder value.

Fund managers lead stewardship activities and are ultimately accountable for them. This activity is not outsourced or delegated to a third party.

Polar Capital's fund managers approach engagement in a measured way as long-term investors. Fund managers frequently meet company management, an integral part of the analytical process that drives investment decisions. Meeting with company management is a way to investigate specific issues, test their investment theses, and understand how companies are managing key risks and opportunities.

Not all meetings with company management are set to achieve change or influence management behaviour. These monitoring meetings are essential to gain a fuller picture of a company's position and help inform fund managers' investment decisions.

On the other hand, targeted engagement is a purposeful dialogue with a specific objective to achieve change. This can be conducted in a number of ways.

A company meeting is typically the forum in which our fund managers raise strategic ESG issues such as capital allocation, board make-up, remuneration criteria and specific environmental and social questions. These discussions often help investee companies with required ESG disclosures and will involve executive management as well as, where necessary, key non-executive directors (NEDs).

For the most part, teams choose to engage on issues they have discovered through their specialist knowledge of the companies and their investment universe. As our fund managers run highly active and often concentrated portfolios, it is expected that engagement on idiosyncratic, company-specific issues is their focus.

Generally, fund managers take a discrete approach to dialogue with companies. The investment teams often have long-term relationships with company management and feel that the best forum for influencing company behaviour is in a private, open conversation with management, where both parties' views are exchanged. This is best suited to funds and holdings where the fund has a significant holding in a company or close and direct access to management.

## Materiality

The materiality of the issue is assessed according to the sector or regional specialism, and the most relevant form of engagement is chosen. If an issue is a material and systemic risk to the business that the fund manager believes cannot be improved through engagement, the fund manager may reduce exposure or sell their holding entirely.

There are a number of factors that inform which approach to monitoring or engagement to choose, issues and companies to focus on, and which form of engagement to conduct.

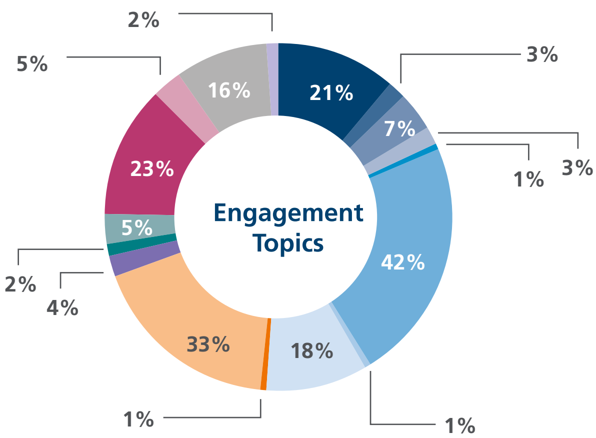
### Engagement enhancements

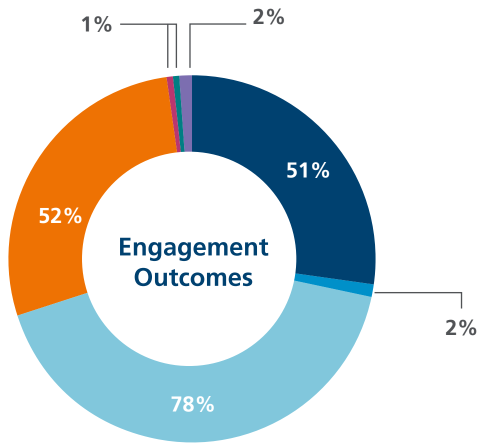
As noted, engagement is led and driven by our investment teams, we believe this is important to ensure that engagement and stewardship practices remain influential in the investment process. However, we acknowledge the benefit of centralised monitoring and management of engagement to ensure that our activities are consistent, auditable and reportable.

Over the coming period, we are working to adopt a co-ordinated, centralised approach to engagement monitoring, so that we are able to provide our clients and stakeholders with a better understanding of the scope and depth of our engagement activities, and by doing so, be accountable for them.

An example of the approach provided in a consistent manner across the funds is illustrated by the Melchior European Opportunities Fund, managed by Polar Capital.

**Melchior European Opportunities Fund Engagements:**




| ESG Topics |
|---|
| **E** Climate Risk/Emissions |
| **E** Environmental impact of Business |
| **G** Compensation |
| **G** Election of Director/Board Structure |
| **G** ESG Financing |
| **G** ESG Integration |
| **G** Management Change |
| **G** Merger/Acquisition/Capital Issuance |
| **G** Shareholder Outreach/Written Consent |
| **G** Strategy and Development |
| **G** Succession |
| **S** Covid Grants |
| **S** Supply Chain Considerations |
| **S** BCP |
| **S** Social Distancing |
| **S** Staff Health & Safety |
| **G** Other |

| Engagement Outcomes |
|---|
| Satisfactory Response |
| Company committed to change |
| Increased understanding |
| On-going |
| Disinvestment |
| Company changed practice |
| Other |

Although the Melchior European Opportunities Fund team are not activist investors, they believe that engagement and dialogue with executive management is essential to understand their business fully as well as improve their sustainability performance and corporate behaviour.

- **As part of their fundamental analysis, the team always proactively engage with any company in which they invest.**
- **The team raise issues of concern with management, including those related to Environmental, Social and Governance considerations.**
- **The team will generally disregard companies that are unwilling to engage with them.**
- **Once invested in a company, the team aim to maintain an active dialogue with management.**
- **The team engage with ESG topics for improvement on areas of the business where the team have material concerns. If these are not satisfactorily addressed, the team will review the investment.**

## Case study: UK Value team

The UK Value Opportunities team approach engagement on a long-term, measured basis. The team are not activist investors and do not seek out issues unnecessarily. They engage with companies where they feel it will have a positive impact on company performance and enhance shareholder value.

The first step is identifying an issue. This may come from their regular fundamental research on companies, meeting policymakers or, more recently, by identifying issues through third-party ratings and research which flag controversial activities and key risks.

By assessing the materiality and time sensitivity of an issue, the team determine the time that they are able to allocate working towards the desired goal. This also forms the timeline they will work towards, with most engagement being in person by the team. The need to allocate resources efficiently and for the greatest benefit.

Good governance is the main way that a business can alleviate many of these issues. The team places great focus on the management of each investment they make, with a real emphasis that targets are clear, easily understandable and, where possible, that they incorporate more appropriate metrics that will lead to the company having a longer-term sustainable outlook. As such, the team will meet with each company in the portfolio every six months as a minimum, conducting over 300 company meetings throughout the year.

Over the course of 2020 and 2021, the team have developed their engagement approach to focus on engaging on ESG factors that matter to our UK Value Opportunities Fund, and that they believe can have material impacts on our investment decision-making.

The issues the team will engage with companies on include:

### Carbon policy

- **Companies without carbon reduction targets are requested to implement them as a minimum requirement.**
- **Companies with carbon reduction targets are encouraged to commit to a net zero date.**
- **They emphasise the value of net zero commitments to those that have them in place.**

### Short termism

- Companies are encouraged to have 100% independence of remuneration and audit committees.
- Companies are encouraged to lay out a pathway to having 33% of women on their Boards, as recommended by the Hampton Alexander review.

### Efficiency

- Companies without waste reduction policies and targets are encouraged to put them in place.

Over the course of 2020 into March 2021, the team has made good progress, having engaged with 25% of companies in their portfolio on all the issues above. The team aims to complete engagement with all investee companies by the end of 2021.

## Case study: Global Financials team

Regular meetings with managements and company visits are a key part of the research process and a pre-requisite before the team start a new position. These have been replaced with conference calls and Zoom meetings in recent months. ESG factors are discussed during company meetings while the team look to hold companies to account through both direct discussions with senior management and through proxy voting.

Should there be a significant change in a company's ESG rating, driven either by an external or internal assessment, they would look into the underlying drivers and discuss the implications for the investment case. This has in the past led to the team selling a position.

The funds focus on ESG factors that are material to the sector in which they invest. These factors include risk management (capital adequacy planning, underwriting approach, funding strength), business ethics (for example, investment in anti-money laundering systems, market manipulation), loan exposure, environmental risk management for insurers and asset managers, sales practices for financial products, data security, responsibility of lending (high cost credit), financial inclusion, employee engagement and diversity, and management remuneration. The consistency in which the above factors are employed provides a guide as to more intangible factors such as management quality, integrity and corporate culture.

An example of an engagement and voting activity culminating in June 2020 was where the Fund voted against the remuneration resolution at Arrow Global's 2019 AGM. The team felt the resolution which included an increase in the long-term incentive award for the CEO was not aligned with shareholder interests. The remuneration was based on underlying rather than reported financial metrics – the divergence between the two had, in their view, contributed to the pressure on the stock price during the period. The team spoke to the company to explain why they had decided to vote against the resolution.

While the team were unsuccessful (the resolution passed with 74% of the vote), the engagement with the company has contributed to an internal review and amendments to the subsequent (2019) directors' remuneration report as detailed below:

*At our 2019 annual general meeting, resolution 2, proposing the directors' remuneration report for approval, received support from a majority of shareholders, with 73.86% of the votes cast in favour of the resolution. However, 26.14% of the votes cast opposed how the remuneration committee implemented the remuneration policy in 2018, as set out in the remuneration report. The Company was disappointed with this level of support, which does not reflect the historically high levels of support shown by shareholders for our executive remuneration arrangements. The Company, particularly the remuneration committee, has spent a considerable amount of time engaging with shareholders to understand their views and the reasons that some of them voted against the 2018 directors' remuneration report. Feedback from engagement with significant shareholders was taken into consideration and has informed the decisions of the remuneration committee in implementing the remuneration policy in 2019. The 2019 directors' remuneration report, seeking approval in this resolution, has taken into account shareholder feedback and included clear and focused disclosure of annual bonus-out-turns within the 2019 annual report and accounts to provide shareholders with more context on the achievements in the year and the corresponding bonus amounts earned by the executive directors. The long-term incentive plan ("LTIP") award performance metrics have been amended to provide a more equal weighting between LTIP performance metrics, to further align the executives with the delivery of the Company's long-term strategic priorities.*

Source: Arrow Global, Notice of Annual General Meeting 2020.

## Case study: Healthcare team

This year, the risks around COVID-19 have been in sharp focus for the team in terms of environmental or social issues and how companies are managing effectively during the pandemic. This will continue to be monitored over the medium term. There have obviously been many challenges presented by COVID-19 and the main issue covered in discussions has been the health and wellbeing of employees, particularly during lockdowns. The response by management teams has been consistent with it being made clear that the safety of employees has been the number one priority. For healthcare companies, COVID-19 has created unique challenges to manage, including the safety of sales personnel focused on hospitals, the risk of employees interacting in R&D laboratories and also in manufacturing with some companies making products that are seeing extreme demand because of the pandemic, but also experiencing supply difficulties.

It is difficult to attribute change in management behaviour and practices to the actions of a single investor, particularly for large companies where a fund's holding is relatively small. This can be more apparent for smaller companies where the relationship is closer between investor and company management. Engagements are monitored by the investment team and actions taken dependent on the materiality of the issue.

The team's engagement approach usually starts with the team identifying a key ESG issue during their research and due diligence, either before entering a position or during ongoing monitoring of investee companies. Third-party research is also useful as a means of flagging where companies have a deteriorating ESG rating or deteriorating scores on key issues.

Third-party research and ratings are also useful for monitoring the outcome of engagements and ensuring that positive claims or commitments made by companies are honoured and reflected in any third-party assessment.

**Here is an example of the chain of events for typical engagement, in this case for Biohaven, a clinical-stage biopharmaceutical company and ArgenX, the biotechnology company.**

**Biohaven (BHVN)**

**FUND(s):** Biotechnology, Healthcare Opportunities

**MSCI ESG Rating:** B (last updated Sep 2020, previously BB)

**Primary driver of engagement:** ESG issue disclosure

**Date of engagement:** 15 February 2021

**Form of engagement:** Email dialogue

**Comment:** The investment team conduct ongoing ESG due diligence on the investment thesis of the company. Due to insufficient public information, this monitoring includes contacting the company directly to understand their commitment to ESG, further understand key social issues and whether these key ESG issues were due to a lack of disclosure or poor practices, and investigating measures being taken to address these issues. This involved e-mail dialogue with the company's VP of Finance and Commercial, acknowledgment by the company of the key issues the team focused on and providing assurance that workstreams had been created at the company to ensure their ESG practices were well communicated. The conclusion was to review the company's ESG report and subsequent public publication. Though this has led to improved policies and disclosure, this is not yet reflected in third-party data scores, an output which the team are actively monitoring.

**ArgenX (ARGX**

**FUND(s):** Biotechnology, Healthcare Opportunities

**MSCI ESG Rating:** BBB (last updated Jan 2021, previously BBB)

**Primary driver of engagement:** ESG issue disclosure, human capital development

**Date of engagement:** 10 March 2021

**Form of engagement:** Video conference with head of investor relations

**Comment:** Though ArgenX performs well under broad ESG analysis, particularly on governance and certain social issues (it is notably exemplary in product quality and safety), the company lacks evidence of policies around human capital development and has experienced challenges on hiring and incentives. ArgenX is headquartered in Europe but has significant operations in the US where remuneration standards can be quite different. As significant shareholders, the team have provided advice on the company plans but also highlighted the importance of disclosures on ESG to the ArgenX investor relations team. The team are assured that the important aspects of social development are already deeply ingrained in the Company's culture and way of doing business and expect to see further progress from them in documentation and filings soon.

## Enhancements to engagement

We understand, through client interaction and guidance from industry associations like the UN PRI, the FRC's Stewardship Code and the Investment Association, that a new quality standard for stewardship practices is being raised. There is a growing expectation that investment managers must set bold standards of active ownership that align with their principles for responsible investment. Engagement on key thematic issues such as climate change is a core part of this. This is an area of improvement for us, with some investment teams already looking at adding this thematic engagement element to their processes.

Engagement practices are a key area for the Company to focus on in the coming year and we will report on our progress in the next Stewardship Code Report.

As we develop our approach to engagement on thematic and systemic issues, we will provide more information on the prioritised engagement topics for 2021 and 2022. Engagements continue to be led by materiality to investment teams. As noted above, we are also working to adopt a co-ordinated, centralised approach to engagement monitoring and oversight.

# **Principle 10:** Collaboration

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

In the past, Polar Capital has joined collaborative engagements on an ad hoc basis, engaging with other investors – while always adhering to the compliance rules set out below – on specific issues that are idiosyncratic to companies held and, our managers feel, are ultimately beneficial for stakeholders and shareholders. An example of this would be our Japanese equities team engaging with a group of investors to propose an extraordinary shareholders meeting on a matter of corporate governance (not in the March 2021 reporting period). The outcome of the vote was unprecedented in Japan and a positive signal of the wider changes we are seeing across corporate Japan.

In the reporting period, collective engagement has been utilised on thematic ESG issues. Climate Action 100+ aims to tackle the systemic climate change challenge, focusing on key emitters and using the significant ($52trn) weight of its supporting investors to influence the behaviour of company management to implement strong governance around climate change, take action to reduce GHG emissions and improve disclosure – all in line with TCFD recommendations.

### Case study: Climate Action 100+

In March 2021, Polar Capital joined the investor-led collaborative engagement initiative Climate Action 100+ and has been participating in active engagement on the climate and carbon reduction strategy of a conglomerate in emerging markets.

We are pleased to be co-lead investors of the Climate Action 100+ collective engagement on Reliance Industries to seek to gain better understanding and push them further on their net zero 2035 targets. Historically and in the main we have preferred to engage on a standalone basis, having had a mixed experience of information as well as impact from sharing with other industry participants, as well as reservations and experience that the pace of such group action can be slow and cumbersome, with many interests to manage, becoming less direct and resulting in nothing getting done.

However, we have more recently observed two notable changes which very meaningfully shift the terms of how we regard collective engagement and how vital it is. Firstly, there is now an increased number of like-minded investors who are motivated for real action, and also want more direct engagement via meetings rather than letter-writing. These investors are not asking for the kind of changes that are beyond likelihood, but meaningful, incremental transition that helps us all move in the right direction and will also be in the company's own interest (as we as shareholders see it). Secondly, there is a much more palpable sense of shared urgency in the investor community as common recognition has arrived that climate action is not something that can be put off for 10 years, but must start to be implemented via changed behaviours now – backed with solid investment strategies.

For these reasons, we see tangible benefits of being active in collective engagement groups in situations where we find like-minded investors and direct, constructive engagements.

Prior to joining Climate Action 100+, the EM Stars team had engaged extensively with Reliance Industries, most recently with meetings following the announcement of their new business reorganisation, with the CFO (Alok Agarwal) and Joint-CFO (Srikanth Venkatachari (Energy division) of Reliance Industries – to talk directly with them on investments in the energy division towards new energy and new materials and the commitment to Net-Carbon Zero by 2035. They have been further encouraged by very strong announcements at the recent company AGM and will be interacting with the management more following this to address how they will outline shorter term targets or milestones and press for greater disclosure on a range of metrics. The team acknowledge that Reliance is certainly an 'improver' or one of our largest 'Sustainability Delta' cases but are comfortable they are managing their ESG risks and positioning themselves firmly as future solution providers.

## Case study: Global Insurance team

Our Global Insurance team have been encouraging the insurance industry to speak up on climate change, take action and champion its role as a force for good in society.

The insurance industry plays a key role in supporting sustainability, but it can do more. A number of investee companies are at the forefront of industry initiatives from meteorological, climate and scientific research to product evolution and technological adoption which is critical to meeting customers' future needs and driving sustainability. The fund managers continue to push for more action at a company and industry level, participating with bodies such as the Global Insurance Forum and Signatory for the London Centre for Disaster Protection.

As well as engaging management teams on issues raised from company disclosures, including compensation and the environment, the investment team is actively engaged in two areas that are regularly discussed with management teams which support the long-term development of the industry.

The first is a focus on the approach taken by companies to close the protection gap. Typically, the insurance industry pays c30% of major losses, with the balance falling to individuals, companies and governments (and therefore taxpayers). Initiatives to increase insurance penetration should close this protection gap. As well as direct conversations with companies, the team are active with the Insurance Development Forum (www.theidf.org) which is a collaboration established in 2016 between insurers, the United Nations and the World Bank. Many of the Fund's holdings are committee members and initiatives here should over time contribute to increasing society's resilience to major loss events.

The second relates to the team's participation in supporting the Insurtech start-up community. Embracing technology provides opportunities for the insurance industry to reduce the cost of doing business and, therefore, lower costs for consumers. This helps increase insurance penetration and provide better tools for companies to expand the amount of insurance coverage or extend the products they can offer further supporting efforts to reduce the protection gap. To this end, the team is involved in a number of accelerator programmes in London as well as being a corporate member and active contributor to InsTech London (www.instech.london).

### An area for improvement:

We understand the benefit and importance of collective engagement and aim to increase our participation in collaborative engagements, developing our participation in these collaborations (for example, taking a lead role in collaborative engagement) and involvement in collective engagement platforms over the coming year.

From a compliance perspective, it is the portfolio manager's responsibility to ascertain whether it may be beneficial to act collectively with other investors. The portfolio manager must set out the reasons for this to the Chief Compliance Officer and go through the legal sign-off procedure with regards to contractual responsibilities which may arise when acting in concert with other shareholders.

Factors which serve as a guideline in determining whether this is the best course of action may include the type of investee company and how large a part of a portfolio a company form.

Polar Capital's engagement with other investors through informal and formal groups will be pursued where necessary and appropriate to achieve the objective of acting in the client's best interest.

Polar Capital is a member of the UN PRI, and while we have participated in meetings and engagements with PRI and as part of constructive forums, we acknowledge the full benefit of the PRI Collaboration Platform and framework has not been used to the fullest. We aim to increase our participation in collaborative engagement, forums with the PRI and increase contribution to efforts to engage with policymakers and peers through the PRI.

# Principle 11: Escalation

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

An issue is rarely accepted by management and company behaviours rarely change overnight. More often, it will take years and multiple meetings to see movement in the right direction. Therefore, teams consider how the conversation is developing, whether management is open to recommendations and finally whether they lead to positive change in the company. We recognise that changes are an ongoing process and align engagement with our long-term investment horizon.

We do not follow a uniform escalation procedure across investment teams as approaches to engagement depend on each team's style and approach. Escalation would usually involve holding additional meetings with the aim of continuing a constructive dialogue with the company and escalating to the Board or Chair if a material, operational or strategic issue is not being resolved with the CEO. Similarly, governance issues may be escalated to NEDs. Teams may exit holdings in full if warranted.

There is not a set policy across all investment teams for unsuccessful engagements. As mentioned above, engagement is conducted at the fund level by the investment teams and the approach of each team may vary. Across all teams, the materiality of the issue that is being engaged upon is a key factor in the subsequent action if the engagement in unsuccessful.

## Voting

The investment teams will consider each vote on an individual basis in light of the relevant circumstances at the investee company. Polar Capital's voting policy (see Principle 12) allows discretion in how Polar Capital will escalate and engage in stewardship activities in a transparent and methodical manner. It is up to the portfolio manager to decide the best course of action for escalation taking into consideration all the relevant circumstances.

Escalation of stewardship activities is likely to be triggered in circumstances where the portfolio manager has identified that shareholders' interests may be at risk.

**These circumstances may include:**

- strategy
- financial/non-financial performance and risk
- capital structure
- ESG
- corporate governance

An approach to the escalation of these issues will be undertaken on a case-by-case basis, with reference to the particular investment vehicle, and will depend on the issues which arise. This may include engaging in meetings with management of the investee company, acting in alliance with other institutional shareholders, or ultimately selling shares in the investee company. An escalation strategy could, for example, lead to seeking dialogue with other stakeholders including regulators, banks, creditors, customers, suppliers and the company's workforce. Voting in concert with other shareholders will require prior authorisation by the Chief Compliance Officer and have regard to the Conflicts of Interest Policy.

## Case study: Escalation through collaboration across Polar Capital funds

The Insurance team regards Governance as fundamental to the Investment process and that is reflected by the fact that Governance comprises 45% of an overall company's internal ESG rating and furthermore has been central to the Fund's approach since inception. An insurance policy is essentially a promise to pay at some future date and therefore governance and management integrity are fundamental to the Fund's Investment approach. This means that the team place great emphasis on their annual shareholder voting which they place jointly as part of a robust proxy and annual report review process. Conclusions are supported by internal and external proxy research (including ISS) and internal analysis.

The fund is active in flagging any issues of controversy to the CIO and Head of Sustainability and logging these observations from year to year and documenting internally our views and any actions taken in respect of each vote. This can include organising follow up meetings with senior directors or the management team, or in more serious cases where the Fund manager has concerns or differences of opinion could include writing a letter to the Chairman of the Board documenting our views, both of which are actions taken in addition to the voting process itself. This was particularly relevant in 2021 when remuneration structures were amended in some cases to reflect the impact of COVID, including consideration around senior management retention due to the hardening (re)insurance market, the treatment of capital raises and/or the addition and treatment of new ESG related metrics within remuneration. For one holding during the 2021 voting the season (for the annual reporting period ended December 2020) the Fund took exception to the way in which remuneration was treated, and collaborated with other holders of the stock within Polar Capital to formulate a joint response. After a joint meeting to discuss the relevant issues, a call was arranged with the Chairman of the Board and the Senior Independent Director.

However, following this meeting it was not felt that the Board had considered Polar Capital's suggestions or sought to further the dialogue towards a mutually acceptable solution and therefore, a letter was composed and sent to the Board setting out our views and expressing the importance of fiduciary responsibility the funds hold on behalf of their investors in challenging their approach. The Board of the company have acknowledged the letter and noted that the engagement would be discussed by the Board and views of the Funds considered. The Funds involved continue to monitor the progress and actions taken by the company.

# Principle 12:
# Exercising rights and responsibilities

## Signatories actively exercise their rights and responsibilities.

The majority (95%) of Polar Capital's funds invest in listed equity and therefore have the ability to vote using their shareholding, using ISS to assist with proxy voting if necessary. This highlights all situations where the proxy adviser recommends voting against management, identifies contentious issues and produces research as part of recommendations. Where ISS recommends voting against management, these issues are reviewed by the fund management teams and the fund managers then decide how they wish to vote.

Consistent with the company's approach to investment, ESG integration and engagement, voting is conducted by each team separately, as they are closest to their investee companies and know the businesses well. Aside from operational assistance on voting, each team is the final decision-maker on proxy voting and will vote in line with the principles of their investment philosophy and responsible investment process.

The teams will vote by balancing the best interests of the company concerned over the long term, in conjunction with maximising the value of investments for Polar's clients, on consideration of advice received from the Proxy Advisor.

When voting, Polar Capital will give substantial weight to the recommendation of the Proxy Advisor but will not support a position if it determines that such a position is not in the best interests of the company's shareholders (such as golden parachutes or option grants that dilute shareholder interests).

The voting record for all Polar Capital funds is publicly available on the company website and also detailed in this report below.

### Conflicts of Interest

From time-to-time, proxy proposals may present conflicts between the interest of clients and Polar Capital, its affiliates and their employees. Such conflicts may arise when proxy votes on non-routine matters are solicited by an issuer that has a business relationship with the applicant or its affiliates. In the event of a conflict, the portfolio managers, the CIO and the CLCO will determine the manner in which such proxies should be voted to achieve the best interests of the clients, which may include disclosure of the facts surrounding any such material conflict to the client for consent before voting.

From a compliance perspective in applying client policies and best practice guidelines, Polar Capital considers each vote on an individual basis in light of the relevant circumstances at the company. Polar Capital may communicate with other shareholders regarding a specific proposal but will not agree to vote in concert with another shareholder without approval from the CLCO.

### Activity

Overview of voting stats for year to March 2021.

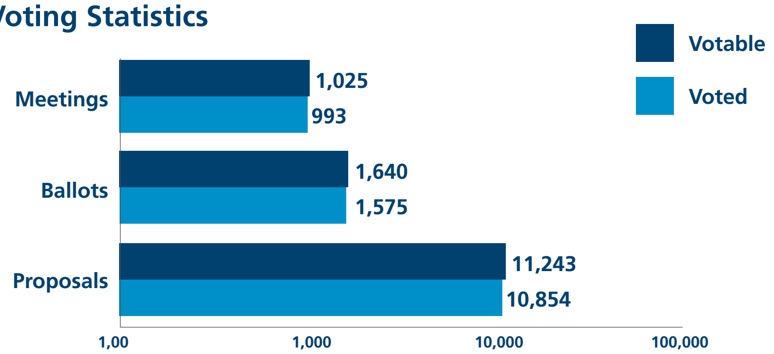
#### Meeting Overview

| Category | Number | Percentage |
|---|---|---|
| Number of votable meetings | 1,025 | |
| Number of meetings voted | 993 | 96.88% |
| Number of meetings with at least 1 vote Against, Withhold or Abstain | 364 | 35.51% |

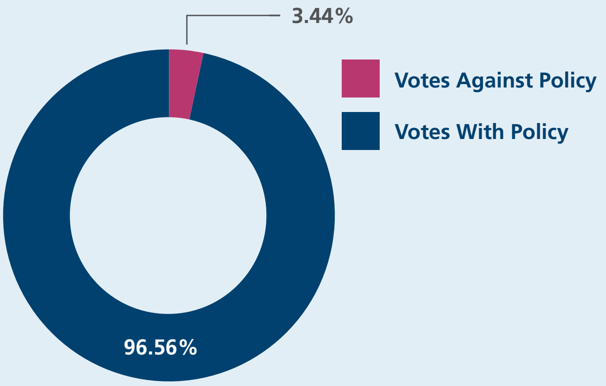
#### Ballot Overview

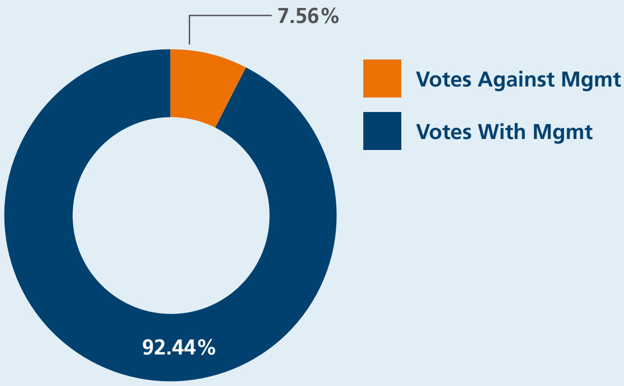
| Category | Number | Percentage |
|---|---|---|
| Number of votable ballots | 1,640 | |
| Number of ballots voted | 1,575 | 96.04% |

#### Voting Statistics

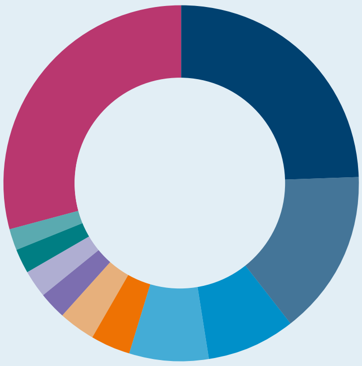


## Comparison of Meetings Voted




## Meetings Voted by Market



| | % |
|---|---|
| USA | 24.67% |
| United Kingdom | 14.90% |
| Japan | 8.06% |
| China | 7.15% |
| Caymen Islands | 3.83% |
| India | 3.12% |
| France | 2.52% |
| Ireland | 2.42% |
| South Korea | 2.22% |
| Netherlands | 2.01% |
| Other Markets | 29.10% |

Significant votes or key voting topics are determined by each fund individually, though topics may overlap from team to team.

## Case study: UK Value team

For the UK Value Opportunities Fund, the year's voting activity was dominated by voting against dividend payments, due to the outbreak of COVID-19 and its impact on business occurring after dividends had been declared. This was a topic specific to 2020 and is unlikely to recur.

Another theme was voting with management but against ISS where ISS objected to a renumeration policy. In the cases of four investee companies, the team felt it would be detrimental to the businesses to vote against the proposed renumeration changes and felt in each individual case they were both justifiable and beneficial to stakeholders.

Another key topic is incentivisation given a number of LTIPs have been wiped out by COVID-19. The team is trying to get the balance between ensuring that management teams are not rewarded regardless of performance but also ensuring they are incentivised to stay at the business and deliver value for shareholders. Voting and engagement on this are taken on a case-by-case basis.

## Case study: Financials team

The Financials team voted against the re-election of the Chairman and another NED that a proxy recommendation was making. Following a meeting, the feeling was the Chairman was not sufficiently engaged with the issues surrounding the company. The NED the team voted against was a partner of the manager and the team felt it was inappropriate he was on the Board due to potential conflicts of interest. Following the AGM and a meeting with the two other NEDs, it was announced the Chairman would in due course be stepping down.

## Case study: North American Team

### More information on 'significant votes' from the North American team are:

**May 2020**

**Altria:**

- **Resolution to report on underage tobacco prevention policies**
- **Resolution to report on lobbying payments and policy**

**North American Fund Vote:** 'For' the resolution on both cases.

It is clearly not in the long-term interest of shareholders and other stakeholders for Altria to be engaging in any way in the promotion of nicotine to minors. The report on lobbying payments and policy was a vote in favour of increased transparency.

**Outcome:** 'Against' on both cases

**Action:** Continue to monitor and engage directly with company directly

**August 2020**

**Constellation Software:** This is a vote against ISS recommendation; there are four new Board members being proposed, and ISS recommended voting against three of them.

**North American Fund Vote:** 'For'
The reason given by ISS was that voting them on will not fulfil the criteria of a 50% independent Board. This is one of the best-run businesses in North America and broadly fulfils independence criteria (ISS slightly critical and subjective definition of independent).

**Outcome:** 'For'

## Case study: Technology Team

Say on Pay (part of Dodd-Frank) is a mandatory, nonbinding shareholder resolution which asks investors to approve the compensation for the CEO, CFO and three most highly compensated executives. Companies must hold a non-binding 'frequency vote' once every six years to ask shareholders whether Say on Pay votes should occur every 1, 2 or 3 years. The Peloton board recommended voting for every 3 years, whereas ISS recommend every single year on the grounds that say-on-pay "is a communication vehicle, and communication is most useful when it is received in a consistent manner". Furthermore, "an annual say-on-pay frequency is the market norm".

The team believed that there were not reasonable grounds on which Peloton should enjoy special treatment and given there are other concerns around governance (see below) and ongoing share dilution of ~6% per annum, frequent communication of shareholder views on executive pay is to be welcomed. The argument against is that annual say-on-pay (as opposed to every 2 or 3 years) could push companies to develop pay programs that show 'good' near-term alignment of pay and results to pass their say-on-pay vote at the expense of pay programmes in the longer-term interests of shareholders.

## Case study: Engagement on New Incentive Programme, CD Projekt, EM Stars Team

3 key areas of controversy led to leading voting service provider, ISS, recommending voting against CD Projekt.

**1. Not 'Sufficiently long term'**

Details: The programme goals are designed for 4-6 years, in-line with a development cycle. However, there is a provision that if they are able to generate a minimum net profit of PLN6bn within 3 years, this timeframe can be foreshortened. ISS have also questioned why the warrants do not vest over the life of the programme, but are granted at the end.

Team View: This equates to an average PLN2bn a year net profit top target, which means an increase from PLN175m in 2019, and PLN342m in their best year ever (2015), representing an incredibly ambitious goal. The team therefore believe that they are very well aligned with the company on this.

It would not make any economic sense for the cost of warrants to be carried by the company for 3-6 years. In addition, the rights could then be exercised at any intervening point, rather than only at the end of the programme, as designed, so some incentivisation or loyalty could be lost by earlier issuance.

**2. Market goal seen as 'less challenging':**

Details: The market goal requires the shares of CD Projekt to outperform the local Polish WIG Index by 100 percentage points over the period of the programme. Critics of the scheme felt this target is less difficult than the profit target above.

Team View: Over the last 1 year, 3 and 5 years CD Projekt shares have outperformed the WIG Index by 89%, 294% and 1562%. Whilst this suggests that this goal is achievable, it also implies that the current share price is already pricing-in high expectation of future profits and in order to see capital returns another 100% ahead of the market the company really must execute on the profitability.

The team would make two additional points: 100% outperformance is highly aligned and desirable and far from 'easy' or predictable regardless of and perhaps especially in light of past performance; secondly, not all incentive metrics can be equally 'hard', they appreciate that management will take a scorecard approach.

**3. A discounted exercise price**

Details: The programme allows a 5% discount to the exercise price on the program warrants in the event that the outermost targets are reached. This is subject to fulfilling the conditions for 'premium goals.

Team View: Typically, discounted exercise prices are a feature of corporate governance that the team frown-upon and would not give their approval to as it creates an imbalance of opportunity between insiders and minority investors, disadvantaging the latter and not treating all shareholders fairly. However, they do accept that where there are appropriate, proportionate performance provisions linked to the exercise price discount – as in this case – then they remain aligned.

Additional engagement: The team held a video call with the co-CEO and CFO and spoke in detail to understand the specifics of the incentive plan structure and their motivations for it. Also learnt management had engaged highly with ISS and investors themselves and acted on the feedback.

## Outcome

Following engagement with management, from a more informed position the team determined to vote FOR the incentive programme – a change from their initial reaction. This was also against ISS's recommendation, exercising their rights as active owners of the shares and, they believe, doing what is right for long term value creation and protection for their underlying shareholders, as well as for the company to go on attracting and retaining top talent.

N.B. After further discussions with the company, ISS published an 'alert' notifying the market that they had now understood and accepted CD Projekt's rationale, but it was now too short-notice to update the full recommendation.

The EM Stars team's process which incorporates continual, active scrutiny of corporate governance practices, rather than relying solely on third-party providers ensures they make the right decisions, not the easiest ones and is value-enhancing.

The investment thesis for these shares had been as a high risk / high reward case which the expertise and execution of management played a large part in. In this way, the remuneration structure was very strongly aligned with the risk minority shareholders were taking which is why they were prepared to support it. **In December 2020, when it became very clear that execution was highly flawed, the team sold their shares and are no longer investors in this company.** The management now stand almost zero chance of meeting these remuneration targets, dependent on delivering on performance and shareholder profitability – and that is precisely how they have been structured.

## Glossary of Terms

**ARC** - Audit and Risk Committee

**AUM** - Assets under management

**CEO** - Chief Executive Officer

**CIO** - Chief Investment Officer

**CLCO** - Chief Legal & Compliance Officer

**CMP** - Compliance monitoring programme

**COI** - Conflicts of Interest Policy

**CRO** - Chief Risk Officer

**DRP** - Directors' Total Remuneration Package

**ESG** - Environmental, social and governance factors

**ExCo** - Group Executive Committee

**GHG** - Greenhouse gas

**GRC** - Group Risk Committee

**ISS** - Institutional Shareholder Services

**Polar Capital Group** (the "Group")

**Polar Capital LLP's** ("Polar Capital", the "Firm", "we")

**QCA** - Quoted Companies Alliance

**TCFD** - Task Force on Climate-related Financial Disclosures

**UCITS** - Undertakings for the Collective Investment in Transferable Securities

**UN SDGs** - United Nations Sustainable Development Goals

POLAR CAPITAL