

# THEMATICS

asset management

## VOTING AND ENGAGEMENT POLICY

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## THEMATICS AM – VOTING & ENGAGEMENT POLICY

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## Corporate governance

Corporate governance encompasses the various systems that dictate the way in which a company is managed and supervised. Its main objectives are to protect the interests of minority shareholders which may be adversely affected by information asymmetries between themselves and management, and to address the divergence of their respective interests, which, for shareholders, is profit maximisation according to the dominant theory of agency (Jensen M. and Meckling, 1976).

This definition of corporate governance does have its limitations however, when the interests of shareholders are assumed to be purely financial, and profit maximisation is measured solely by the company's share price and the dividends paid out, since this eclipses the interests of other stakeholders who contribute to the creation of value for the company. We believe that a company's "sustainability", and therefore its capacity to generate earnings over the long term, depends on achieving a balance between the interests of all stakeholders and protecting the environment.

In addition to business and financial objectives, a company's strategy must therefore also address environmental and social issues and internalise the economic costs that are inherent with them. It is here that corporate governance can play a key role, by ensuring that the environmental and social concerns that can have the most impact on a company's share price are incorporated into its governance systems and practices.

The role of a responsible corporate governance system is therefore to ensure:

- That the reliability of financial information, and by extension of ESG information, is assured by effective internal control and audit systems
- That the company's management is effectively supervised, through a balanced distribution of managerial and supervisory powers
- That shareholder rights are observed and that shareholders have the means to exercise their rights
- That there is a balance between incentives to achieve performance targets and sanctions to avoid excessive risk-taking
- That environmental and social factors are considered when making operational and strategic decisions.

The role of governance is particularly important, because poor governance practices can lead to failures in a company's overall management and supervision, which may in turn compromise its long-term growth and ultimate value. Good governance practices therefore make it possible to identify and manage these risks more effectively and reduce the cost of investment to optimise value creation over the long term.

# I. VOTING

## Exercising our voting rights as responsible investor

Thematics Asset Management (hereafter "THEMATICS AM") is a French portfolio management company, which was approved by the AMF in May 2019. As an asset management company, THEMATICS AM believes that it has a responsibility and a duty of care to watch over the value of the investments of its unit-holders and to exercise the voting rights that are attached to the securities in the portfolios it manages.

THEMATICS AM has therefore, and in accordance with its policy of corporate social responsibility and Article 314-100 of the AMF General Regulations, set forth a voting policy for exercising, in the exclusive interest of its unit-holders, the voting rights attached to the securities in the portfolios of the funds it manages.

THEMATICS AM intends to exercise 100% of the voting rights on the issuers of the securities it holds in the portfolios of the funds it manages, with no geographical restrictions or minimum holding requirements on the exercise of these rights.

### Why we vote

As a responsible investor, we recognise our duties in promoting strong corporate governance within our investee companies. Our objectives for voting is five-fold:

1. Creating long-term value for our stakeholders through the promotion of strong governance
2. Protecting the rights of shareholders

3. Promoting a fair and equitable compensation policy for all stakeholders
4. Establishment of strong accountability and transparency
5. Respecting and preserving the environment and society

Guided by these objectives, the next section sets out our core voting principles.

### Our core voting principles

#### Boards of Directors

The Board of Directors of a company is accountable to that company and its shareholders and has an obligation to serve their best interests. Accordingly, the following basic principles must be observed:

##### *Accountability*

Boards must be sufficiently accountable to shareholders. This is made possible by transparent corporate governance practices and the holding of regular Board elections for which shareholders have sufficient information to evaluate the Board's directors and overall composition. The rights of shareholders to oppose the reappointment of directors and revoke directors is also taken into consideration.

##### *Responsiveness*

Directors must take the opinions of shareholders into consideration, particularly when shareholders are strongly opposed to management's proposals.

##### *Composition*

Boards of Directors should be composed of people who bring 'added value' through their specific skills or expertise and who can devote sufficient time and commitment to their directorship. Board members should not be constrained by arbitrary limits such as age or term of office. However, directors who are unable to attend Board and committee meetings and/or have too many directorships are monitored to ensure that they can effectively serve the best interests of shareholders.

##### *Independence*

Board members must be sufficiently independent of management (and controlling shareholders), to ensure that they are able to effectively oversee

the management of the company and the performance of its management for the benefit of all shareholders, including in respect of the corporate strategy and its execution, the appropriate use of capital, and the implementation and observance of executive compensation programmes that are consistent with the corporate strategy.

THEMATICS AM generally votes against the election or re-election of non-independent directors, with the exception of the CEO.

### Shareholders' rights

Pursuant to the G20 and OECD Principles of Corporate Governance of 2015, a corporate governance regime must protect and facilitate the exercise of shareholders' rights and ensure fair treatment of all shareholders, including minority and foreign shareholders.

#### *Shareholder meetings*

Shareholder meetings are a key component of corporate governance, since this is where voting rights are exercised. THEMATICS AM therefore opposes anything that can limit or hinder the operation of shareholder meetings or reduce the scope of their authority. Resolutions should therefore not bundle together items that may be dealt with separately.

#### *Shareholder voting rights*

THEMATICS AM believes that shareholders should be able to exercise their voting rights equitably. Aware that companies need to retain and stabilise their shareholder base to ensure their long-term development, THEMATICS AM is not opposed to the principle of granting double votes to long-term shareholders, provided that all shareholders are equally entitled to double votes and that the latter do not result in disproportionate control that is to the detriment of minority shareholders.

Such resolutions will be examined on a case-by-case basis, in particular with regard to the shareholder base and the amount of control that the current shareholders have. We believe that such changes must be subject to shareholder approval and explained in detail by the board of directors.

### The integrity and quality of financial information

Access to fair, complete and transparent financial information is an essential shareholder right. Good quality information on the company's governance

and new developments is also necessary. Without this information, voting rights cannot be exercised judiciously. Insufficient or poor-quality information can result in abstention or even a No vote.

### *Approval of annual accounts*

THEMATICS AM checks the quality and transparency of the information provided and that there is an Audit Committee with a majority of independent members.

### *Ratification of director actions*

Director actions may not be ratified in the event of a serious breach of corporate governance standards, highly deficient overall performance (i.e. economic, financial, social and environmental) that is detrimental to the company's share price, or auditor reservations on the annual accounts.

### *Selection and remuneration of statutory auditors*

THEMATICS AM makes sure that its votes help to avoid conflict-of-interest situations and to ensure the quality and independence of the auditing of accounts and may abstain from voting or reject resolutions in some situations.

### *Dividend payment*

Votes on dividend distributions will depend on the company's financial situation over an extended period of time.

### *Quality of governance information*

The "*comply or explain*" principle is an essential component of corporate governance and must be observed in many countries. Companies that refer to a governance code but fail to observe one or more of its recommendations must explain why.

## Remuneration policy

Aligning the interests of management with those of shareholders is fundamental to good corporate governance. A company's remuneration policy company must contribute to this.

How a company remunerates its corporate officers and senior executives must therefore be transparent and subject to quantified performance criteria and objectives. The non-existence or non-publication of these criteria will be opposed. A company's remuneration policy must contribute to a strong correlation between the interests of senior executives and shareholders, while avoiding conflicts of interests.

### Environmental, Social and Governance issues

THEMATICS AM has been a signatory of the United Nations Principles for Responsible Investment (UN PRI) since 4 October 2019. The PRI defines responsible investment as follows: *"Responsible Investment is an investment approach that seeks to integrate environmental, social and governance (ESG) factors into investment decisions in order to better manage risk and generate sustainable, long-term returns"*.

As a responsible investor, THEMATICS AM is particularly committed to:

- Being an accountable shareholder, by acting in the exclusive interest of the unitholders of the funds it manages
- Defending the interests of fund unitholders
- Seeking out the best-performing investments with a view to long-term value creation.

THEMATICS AM's decision to invest in a company systematically takes into account the company's sustainability, which in turn depends on the following economic, financial, social, environmental and corporate-governance factors:

- efforts to achieve long-term value creation
- the quality of business and financial management
- concern for good governance
- the development of a healthy and stimulating work environment
- efforts to reduce environmental impact
- equitable relations with customers, suppliers, civil society and other stakeholders
- response to sustainable-development risks and opportunities.

Given their impact on company performance and reputation, social responsibility and sustainable development are critical factors in investment decisions. THEMATICS AM's voting is aimed at ensuring boards of directors are aware of the importance of the risks and growth opportunities of their social and environmental responsibility and work to adopt appropriate business practices.

## Our voting process

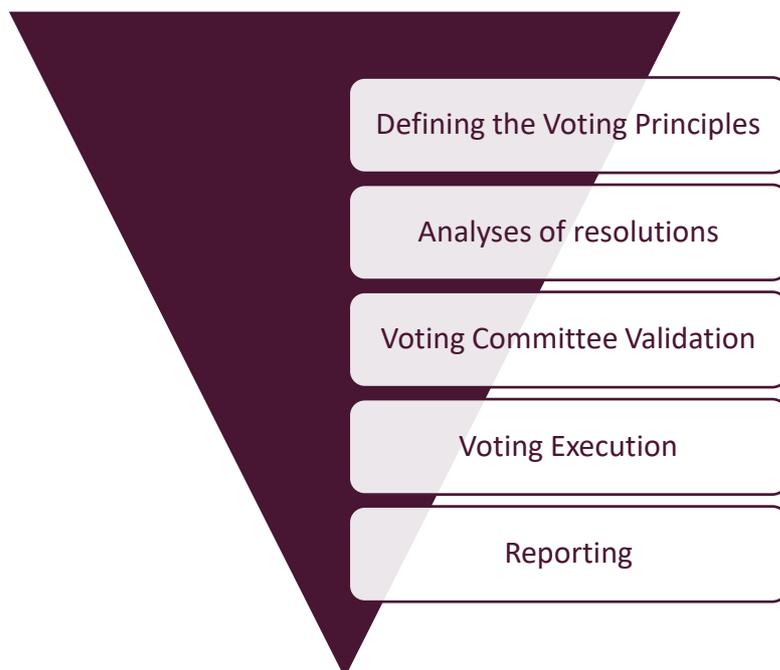


Figure 1. Thematics AM Voting Procedure

### Defining the voting principles

Thematics AM's Responsible Investment Committee is in-charge of defining the voting principles of the organisation. It is composed of the CIO, Head of Responsible Investing, Compliance and Audit Officer, and ESG Specialist. The policy is reviewed and updated annually.

### Voting scope

Except in some exceptional cases<sup>1</sup>, THEMATICS AM exercises the voting rights on all of the funds it manages and for which it holds voting rights.

THEMATICS AM will exercise voting rights on all of the securities in the portfolios for which it is able to exercise voting rights, provided that regulatory provisions and the technical constraints of financial markets and depositaries enable the exercise of voting rights to be optimised in the interest of unitholders.

<sup>1</sup> The only exceptions are investment funds that employ asset management processes that require the immobilisation of securities before voting rights can be exercised, which may adversely affect the value of investments.

### Analysis of resolutions

THEMATICS AM uses the global corporate governance and responsible investment expertise of **Institutional Shareholder Services (ISS)**. This enables THEMATICS AM to use proxy voting analysis and observe the recommendations of ISS' Sustainability Policy. This policy is consistent with THEMATICS AM's ESG approach and in particular its commitments as a signatory to the UN's Principles for Responsible Investment (PRI).

ISS voting guidelines are compatible with the sustainability goals of investors and their fiduciary responsibility.

- The ISS Sustainability policy's recommendations on corporate governance, management remuneration and corporate structure are based on a commitment to create and sustain economic value and to promote the principles of good corporate governance. The ISS Sustainability policy also seeks to support resolutions that promote best practices, such as protecting the environment, combating discrimination in all forms and showing respect for human rights. Governing bodies must take into account the impacts of their social and environmental responsibility in terms of both risks and opportunities.

The principles of the ISS Sustainability policy will generally be based on internationally recognised sustainable development initiatives.

THEMATICS AM has agreed to observe the analysis of resolutions carried out by ISS in compliance with the "Sustainability" voting policy.

For resolutions that are particularly important or for which principles have not been set forth in the voting policy, or where it calls for assessment on a case-by-case basis, Portfolio Managers can submit a vote amendment to the RI Committee, who then reviews and validates the final voting decision.

Below are links to the more detailed 2020 version of the full ISS Sustainability Proxy Voting Policy:

- For U.S. equities:  
<https://www.issgovernance.com/file/policy/active/specialty/Sustainability-US-Voting-Guidelines.pdf> (in English)
- For other International (i.e. non-US) equities  
<https://www.issgovernance.com/file/policy/active/specialty/Sustainability-International-Voting-Guidelines.pdf> (in English)

### Voting Execution

Voting is carried out via ISS' Proxy Exchange platform, with a gateway between ISS and Broadridge for those funds whose depository uses Broadridge's services.

The exercise of voting rights is handled under a services contract by Ostrum Asset Management's Middle-Office Processing department, which is also in charge of relations with service providers and depositaries.

It should be noted that some issuers require that shareholders who wish to exercise their voting right deposit their shares before the date of the shareholder meeting. The shares may therefore be “locked up” for a period of time, depending on the country and the issuer. Except in cases where attendance at a shareholder meeting is necessary to directly exercise voting rights, THEMATICS AM generally exercises its voting rights by mail or by proxy.

### Procedure for detecting, preventing and handling conflicts of interests

THEMATICS AM generally exercises its voting rights exclusively in the overall interest of unit-holders, without taking its own interests into account and in compliance with the principles it observes when exercising these rights.

THEMATICS AM has set up a procedure to prevent, detect and handle conflict-of-interest situations. Accordingly:

- Should a conflict of interests arise between THEMATICS AM and one of its clients, the Compliance and Internal Control Officers (CICO) will consult with the RI Committee before taking a decision.
- If a staff member involved in the exercise of voting rights finds his or herself in a conflict-of-interest situation, he or she must immediately inform the THEMATICS AM Voting Committee and the Compliance and Internal Control Officer and must not participate in the exercise of that vote.

If the exercise of the voting right would expose THEMATICS AM to a significant conflict-of-interest situation, the THEMATICS AM RI Committee will submit the matter to the CICO who will decide on the position to be taken and in particular on whether or not participation in the company's shareholder meeting is necessary.

Lastly, since THEMATICS AM is a subsidiary of the Natixis Group, it does not take part in the shareholder meetings of Natixis Group subsidiaries, entities or equity interests whose securities are traded publicly.

## II. ENGAGEMENT

Guided by our responsible investment principles and views on corporate governance, we, at THEMATICS AM, have set-out our engagement framework, defining:

- why we engage,
- what we expect from engaging with our investee companies,
- and how we will implement this within the organisation.

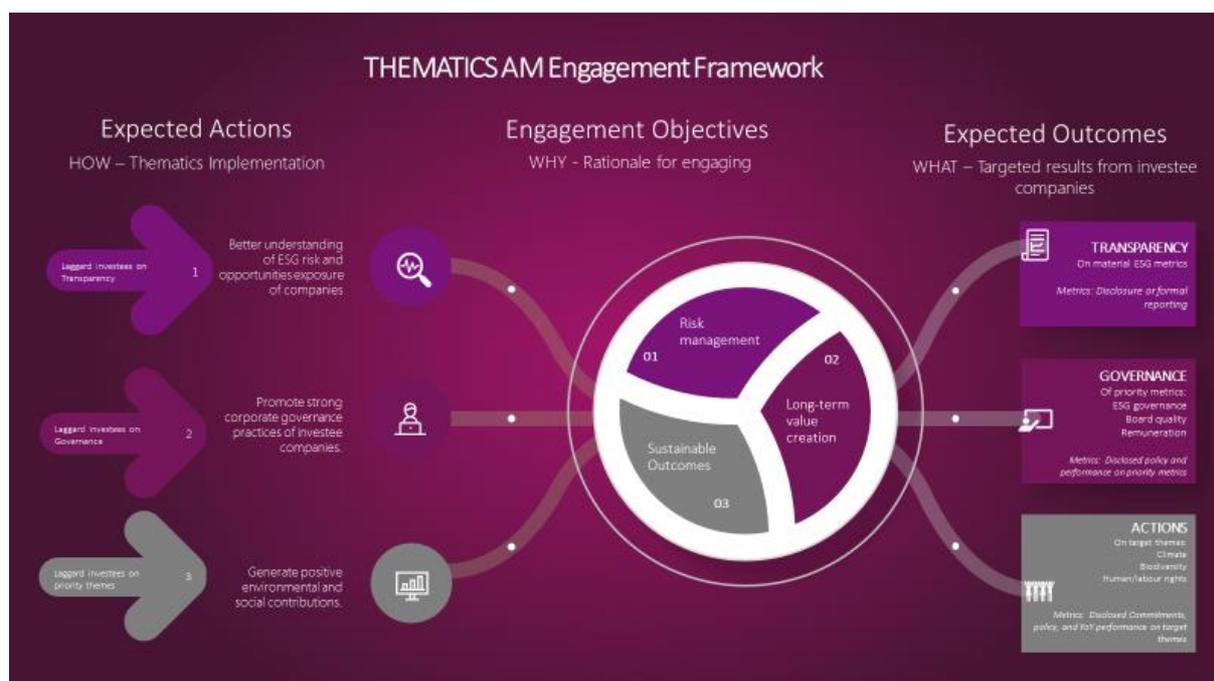


Figure 2. Thematics AM Engagement Framework

### Engagement Objectives: Why we engage

We are convinced that good governance enables companies to more clearly assess the risks they face and thereby improve their performance over the medium and long term. As investors, we view engagement as a core strategy through which we can deliver on our fiduciary duty to our clients.

THEMATICS AM therefore engages with its investee companies to achieve the following objectives:

### Risk Management

For investors, relevant and reliable information on companies' management and performance is critical to a fully informed investment decision. For companies, amid increasing regulatory requirements and market expectations on disclosure, transparency builds attractiveness for investors and creditors.

### Long-term value creation

Sustainable development issues are becoming drivers of risks. Integrating environmental and social factors into the core of corporate strategy equips companies better for the long-term. As investors, we recognise our role as stewards of the economy. We will engage with our investee companies with the aim of creating long-term value for our clients and the broader economy.

### Sustainable outcomes

Some of the sustainability challenges faced by the world today represent risks of critical magnitude. The scientific community has laid out the very grave scenarios that continuing on our current carbon emission trajectory will lead to. Continued destruction of our biodiversity and ecosystems have led to catastrophic events that we have witnessed in recent years, from wildfires, floods, and severe droughts, to the Covid-19 pandemic. Changes in current business practices are needed to build mitigation and adaptation capabilities to minimise the risks of future episodes and to build resilience.

### Expected Outcomes – What we aim to achieve

For each of the three engagement objectives, we have also defined the targeted results from our investee companies.

### Transparency

To enable our risk management objectives, our engagement with investee companies is aimed at building transparency, primarily on material environmental, social, and governance metrics. As a long-term investor with the majority of companies across our strategies belonging to the middle and

small capitalisation groups, engaging for transparency serves to establish strong governance practices at the critical stage of growth of our investee companies.

*Priority theme/s:*

Transparency on material financial and ESG risk metrics

Aligned with the aim of the risk management-targeted engagement, our priority is for companies to demonstrate transparency primarily on material ESG metrics. Transparency on these metrics in turn enables a well-informed ESG performance assessment. Material risk metrics are those that companies in our funds are most exposed to, linked to the nature of their activities. The diagram below indicates the 11 metrics on which we will engage with companies.



Figure 3. Thematics AM ESG Criteria

Internal controls and risk management

The reliability and integrity of financial and ESG information is essential to the proper operation of financial markets. For this reason, internal control and risk management systems are essential to the effectiveness of the corporate governance system.

Indeed, poor risk management may have substantial consequences on a company's performance and therefore pose a serious threat to its equity and debt holders. Companies must therefore implement procedures to improve the quality of the information they provide and protect themselves against operational, regulatory, legal and reputational risks.

The objective of our engagement on this theme is to improve the transparency of the financial and ESG information provided to financial markets and shareholders.

### *Targeted results*

- a. Published report on company's policy and performance on extra-financial factors. Disclosures are expected to contain information on the management framework and key performance metrics on environmental and social factors.
- b. Reported data on legally mandated and/or market required disclosures on negative and positive impacts of the companies, i.e. SFDR, EU Taxonomy, other domestic regulations on sustainability disclosure.

### **Strong Governance**

Creating long-term value rests upon the institutionalisation of sustainability values at the core of companies' governance. To help build the governance structures that integrate the interests of all stakeholders, our engagement will focus on the establishment of sustainability governance across our investee companies.

#### *Priority theme/s*

Establishment of strong sustainability governance

We believe that corporate sustainability has a key role to play in making the changes that will be necessary to meet the challenges of achieving a sustainable model of economic development. Targeted at creating long-term value for all stakeholders, our engagement focuses on ensuring that our investee companies have governance systems in place, in particular around these two issues:

The supervisory structure and the balance of powers

The board of directors plays a key role in “guiding the company's strategy and supervising its management”. Above all, it represents the interests of the company, its shareholders, and other stakeholders, and oversees its long-term growth.

It is also the forum where all strategic decisions are discussed and therefore the only body that can legitimately deal with environmental and social issues that may have an impact on the execution of the company's strategy and therefore on its long-term performance.

The quality of the board's composition and governance structure are therefore two key factors in the development of an effective corporate governance system.

The objectives of our engagement on this theme are to promote:

- A balance of power between management bodies and supervisory bodies
- A nomination process that addresses the board's needs for specific expertise, skills and diversity
- The independence and complementarity of board and committee members
- The integration of social responsibility concerns in the company's strategy.

### Remuneration system

The compensation of senior managers may have a direct influence on a company's strategic orientation and on the risks these managers take. Compensation is also the means by which the board of directors may incentivise management to prioritise the company's performance over the long term. The various components of the compensation system must therefore be correlated with the company's financial and ESG performance and take into account the long-term creation of value for shareholders and other stakeholders. It is essential that performance criteria be transparent, relevant and measurable. The objectives of our engagement on this theme are to promote:

- The transparency of remuneration policies and systems
- The transparency of financial incentives and their alignment with the creation of shareholder value
- The inclusion of environmental, employee and social concerns in remuneration policies.

### *Targeted results*

Our engagement metrics will target the following:

- a. Formalised and published governance framework on sustainability issues
- b. Integration of sustainability criteria in the remuneration policy

### Actions on critical sustainability challenges

With the urgency of climate and biodiversity issues becoming increasingly evident, the aim of our engagement around sustainable outcomes is to elicit tangible actions from our investee companies. Having assessed the risk management-preparedness level of our investee companies, we have determined that the ideal starting point is for companies to acknowledge and recognise the impact that climate change and biodiversity losses will have on their operations and businesses.

#### *Priority theme/s:*

Climate change and biodiversity are interlinking challenges highlighting the critical need to integrate climate and biodiversity considerations in economic and business decision-making across sectors of the global economy.

Climate change is becoming the defining issue of our time. The havoc that could result if we continue in our path above 2°C been well-documented by the scientific community. Mitigating and adapting to climate change is now an imperative for businesses and society as a whole. To get into this decarbonisation goal, companies must first recognise and start building understanding of the climate threats to be able to put in place governance and risk management framework.

On the other hand, the 2019 report of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), the equivalent organisation of IPCC, has emphasised the accelerating deterioration of ecosystems globally. Human-induced changes and overexploitation of natural resources pushed the planetary boundaries to its limits, posing threats to human security across the world.

#### *Targeted results*

Our engagements will encourage companies to have:

- a. A formal commitment to address climate change and biodiversity
- b. A formalised action plan with defined timelines, for example decarbonisation strategy

## Implementation – How we engage

### Who – Target companies

Companies that are laggards across the three core priority engagement themes – Transparency, Governance, Actions will be the targeted companies for engagement. Targets are set per investment fund. Data on company performance on transparency are based from ISS, Sustainalytics, and Bloomberg Disclosure scores.

### How – Process of engaging

Formal engagement with the target companies is carried out by each fund's Portfolio Managers with the support of the ESG Specialist. Engagement can be in a form of formal discussion with the management or formal letter. The engagement defines the expected outcomes and the performance metrics with the investee companies.

### Escalation

When engagement targets are not met or there is an assessed unwillingness or intentional inaction from investee companies to a degree that poses risks to our clients' interests and shareholder value, THEMATICS AM may consider joint intervention with other shareholders or propose shareholder resolutions. Decisions on a need for escalation is taken on a case-by-case basis.

### Industry collaboration and policy engagement

For themes and sustainability challenges whose effective response is more likely to be influenced by collective action, Thematics AM will actively join investor groups or industry alliances to engage with target companies or policymaking bodies.

We are currently a member of the French asset management association or Association Française de la Gestion Financière (AFG) and French SIF (Forum pour l'Investissement Responsable – FIR).

## Governance of Voting & Engagement

Thematics AM's Responsible Investment Committee is in-charge of the governance and oversight of the Voting and Engagement framework. It is

comprised of the Chief Investment Officer, the Head of Responsible Investing, Head of Compliance, ESG Specialist, and Climate Specialist.

## Disclosure

Thematics AM publishes its voting and engagement and performance performance in an annual basis. This policy document and the current performance report is available on the Thematics AM website and can be accessed [here](#). The voting dashboard containing Thematics AM's voting decisions are available on this [website](#).

### Disclaimer

This document is intended solely for informational purposes. It has no contractual value and does not constitute investment advice. THEMATICS AM cannot be held liable for any decision taken on the basis of this information. THEMATICS AM shall also not be liable for the failure to exercise some or all voting rights due to delays or negligence in providing the documents and other information necessary to exercise these rights, or to the failure to provide such documents or information.

THEMATICS Asset Management may amend this document at any time. This document is available on request from THEMATICS management, at 20 rue des Capucines, 75002 Paris, and on THEMATICS AM's website at <https://thematics-am.com/>

THEMATICS Asset Management is a simplified joint-stock company (SAS), registered in the Paris trade register on 19 November 2018 under No. 843 939 992, with share capital of €150,429.00 and having its registered office at 20 rue des Capucines, 75002 Paris.