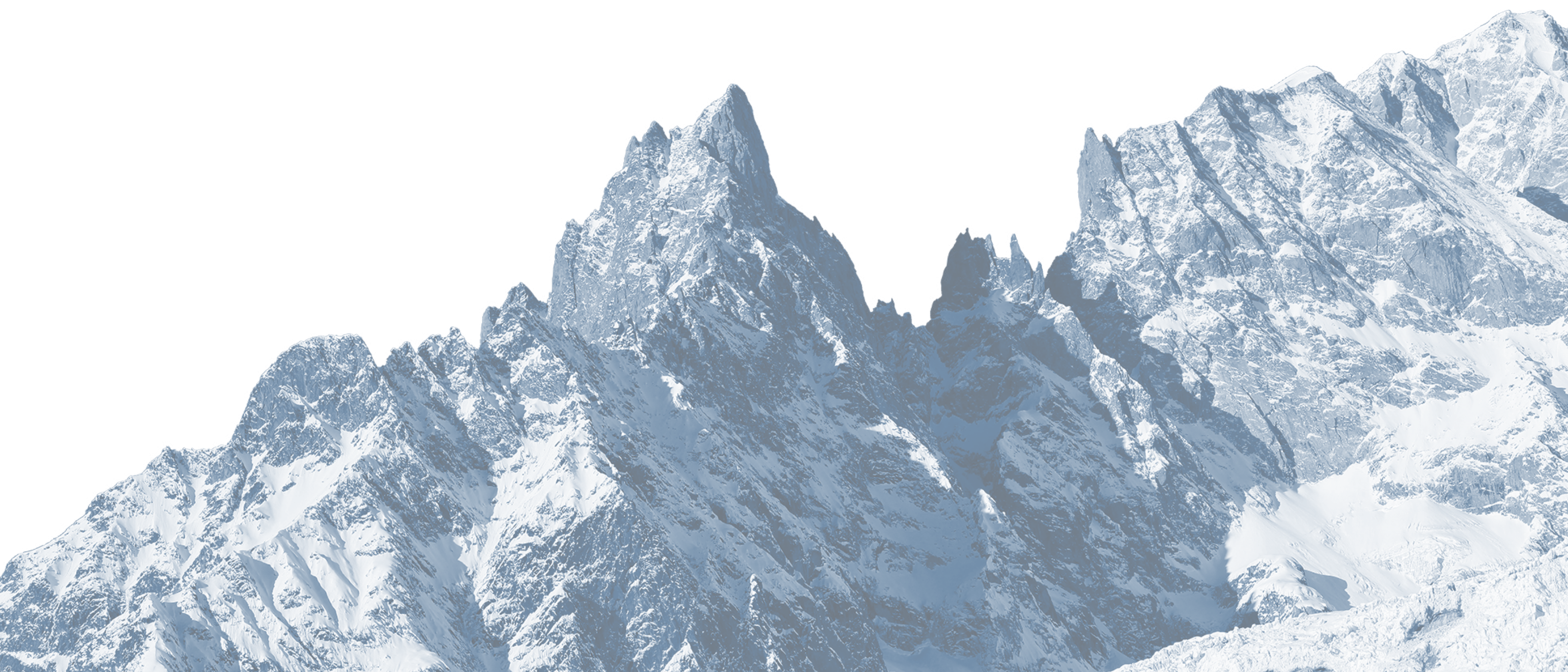
2021 Voting & Engagement Report

Algebris Investments



1. Algebris Voting Policy

Algebris Investments (“Algebris” or “we”) embraces **active ownership**, and encourages good governance and sustainable corporate practices, which contribute to long-term value creation for our investors. These are the guiding principles we have followed in setting out our policy with respect to the exercise of voting rights related to investments made by Algebris on behalf of its clients and the funds which it manages.

Algebris uses a combination of highly disciplined bottom-up fundamental research informed by top-down understanding of the macro context in which such investments occur and may be influenced. A bottom-up approach involves a fundamental analysis of individual securities, the short- and long-term economic prospects of the underlying company as well as an assessment of the underlying company’s intrinsic value.

Where Algebris has invested in the equity of a company, it will engage with the company on a regular basis either via broker conferences, company road shows or separately arranged meetings. The frequency of engagement will be determined by the size of the position. The engagement will take place on a regular basis with additional engagement if there are any concerns about the company and/or the market in which it operates, including on ESG matters.

In many cases, Algebris seeks to build long-term relationships with the companies we invest in and is able to maintain a dialogue with senior management that is critical within the investment process. Algebris’ investment selections undergo exhaustive due diligence, communication with company executives, and a highly disciplined approach to risk control.

Regarding ESG, we incorporate the following principles in our voting process:

- Voting decisions are to be made on a case-by-case basis following an assessment of the matter at hand and after taking into consideration its likely effect on the performance of the investments and the relevant separate account mandate or Algebris fund. Algebris also takes into account **long-term sustainability considerations** of each issuer when deciding to vote.

- Any votes cast must be in the best interests of the relevant client, being:
  - The separate account holder in the case of votes attaching to an investment made under the relevant investment management agreement; or
  - The Algebris fund and the investors therein in the case of votes attaching to an investment made by Algebris

- Algebris is a supporter of the **Say on Climate Initiative**. As part of our commitment to the initiative, Algebris will encourage all listed companies to submit a Climate Transition Action Plan at their AGM for a shareholder vote. Where companies do not do so voluntarily, Algebris will vote for and file AGM resolutions (whenever we have sufficient votes) requiring such votes.

Our **Voting Policy** can be found on our website here.
Our **Shareholder Engagement Policy** can be found on our website here.

Proxy voting is managed via the ISS Proxy Exchange platform. The Algebris Operations team will receive meeting notifications which are sent to the investment team. Upon instruction from the relevant portfolio manager, the vote is input into the appropriate platforms. The vote will require an approval from a manager in the Operations team. Algebris vote on a meeting-by-meeting basis.

2. Voting Outcomes - 2021

In 2021, Algebris exercised its voting rights at 104 companies, voting in 126 meetings and on more than 1000 proposals (table 1). Our voting activity has increased sizeable over the past three years: in 2021 we voted at 91% of all the meetings called at investee companies and 89% of proposals, compared to 47% in 2020 and 10% in 2019.

In 18% of the meetings, Algebris casted at least one vote against the position of management. The majority of these contrarian votes (49%) were on matters of non-salary compensation. We consider the alignment of interests between management and shareholders to be a key element of corporate governance and we place high scrutiny on remuneration policies and executive compensation. Our decision to vote against management on these issues was mostly based on a determination that the policies under review did not provide enough transparency on performance criteria for short-term variable remuneration, and/or did not establish an appropriate link between pay and performance.

Table 1 | Summary Voting Statistics

	2019	2020	2021
Meetings Voted	11 10%	77 47%	126 91%
Proposals Voted	161 13%	884 51%	1040 89%
Shareholders' resolution voted (% of total):			
Europe	60%	65%	79%
North America	33%	29%	16%
Developed Asia	1%	6%	3%
EMs	3%	0.1%	2%
Meetings with at least one vote against management	6 55%	20 26%	23 18%
Proposals voted against management	32 20%	92 10%	45 4%
Shareholders' resolution voted (% of total)	12%	49%	91%
Shareholders' Resolutions voted in favor (% of those voted)	58%	35%	76%

Source: Algebris based on ISS. Data as at 31/12/2021.

In 2021, Algebris significantly increased voting on **shareholders' resolution** – from 12% in 2019 to 91% in 2022. In 76% of the instances in which we casted a vote on shareholders' resolutions, we supported the position of the proponents. The shareholders' resolution that we supported ranged over a variety of topics. A few examples of shareholders resolution we supported are listed below.

Political Lobbying Disclosure at Citigroup

Miller/Howard Investments, Inc. submitted a proposal to Citigroup's annual meeting requesting the company to publish an annual report on its lobbying policies and expenditures, covering both direct and indirect lobbying and grassroots lobbying communications. In its opposing statement, the board contended that the requested proposal would be duplicative and an ineffective use of company resources because the company already had a comprehensive system of reporting on its lobbying activities and political contributions. Proponents, on the other hand, stated their concern that the company's inadequate lobbying disclosure would expose it to reputational risk when the lobbying of organizations that it supports contradicts the company's public positions on critical issues such as climate change, racial equality, and COVID-19.

While Citi does disclose some information regarding its lobbying-related activities in its Political Activities Statement, disclosure has significant room for improvement. Algebris thus supported the shareholder resolution voting against management's position.

Racial Equity Audit at Citigroup and Wells Fargo

In the context of increasing awareness around racial justice in the USA, two separate resolutions were brought forward by shareholders at Citigroup and Wells Fargo urging the companies to oversee a racial equity audit, including an analysis of any adverse impacts on non-white stakeholders and communities of colour.

In the Fall of 2020, Wells Fargo's CEO received negative press for a statement in a company memo that seemed to offer a rationale for low levels of Black employees at the bank. In 2020, the bank paid $7.8 million to settle Labour Department allegations of hiring discrimination against Black workers and women. The proponents of the Citigroup resolution on the other hand cited findings from Congress, alleging that Citi only accepted applications for funding for the Pay-check Protection Program from clients with an existing banking relationship, "despite its own internal assessment that recognized 'a policy of not taking non-customers might create heightened risk of disparate impact on minority and women-owned businesses.'" Algebris thus supported the shareholder resolution voting against management's position.

Incentive-Based Compensation and Risks of Material Losses at Wells Fargo

The Trustee for the New York State Common Retirement Fund filed a proposal requesting a report on the extent to which employees' incentive compensation may be tied to metrics that expose the company to further risks.

While the company continues to improve its disclosure on risk management process and oversight, the incentive compensation design for the company's employees from various ranks played a significant role in recent controversies – including the 2016 unauthorised accounts scandal – which resulted in reputational and financial harm for the company. Additional disclosure on potential risks related to the broad-based incentive compensation designs would be beneficial. Algebris thus supported the shareholder resolution voting against management's position.

3. Other Engagement Initiatives

We aim to use our role as investors to achieve positive change, and hence place a high importance on actively engaging with investee companies. We maintain our commitment to effective stewardship of investee companies throughout the lifecycle of the investment, through ongoing monitoring of ESG credentials and progress. We conduct both individual engagement with companies of specific issues and collective engagement on broader ESG themes.

3.1 Individual ESG Engagement

The goal of our individual ESG engagement is to positively influence the behaviour of investee companies to improve the long-term sustainability of their business models, either by focusing on broad ESG themes or by addressing company-specific issues. On the investment side, Algebris investment professionals hold ongoing dialogue with investee companies, to this end. This is typically done in the form of calls and meetings with management, following publication of results or upon presentation of industrial plans. Algebris ESG team is often involved in those conversations.

In our conversations with investee banks, we have been vocal on the need for banks to start disclosing the carbon footprint of their loan book – with particular attention to **financed emissions** (Scope 3 Category 15). Banks are gatekeepers to the green transition, as they decide what sectors to allocate funding to. Their largest climate impact therefore stems from their lending – but there is still very little transparency on Scope 3 financed emissions. Only ~25% of banks surveyed by the Carbon Disclosure Project in 2021 reported financed emissions to CDP, and with limited coverage. For those banks that do disclose this measure, however, financed emissions are ~230x larger than operational emissions. Starting in 2022, we will thus be focusing our individual engagement on driving adoption of Science Based Targets (SBT) by all investees in our Net Zero-aligned portfolios.

Another topic that has featured in our individual engagement with banks is the risk surrounding **green or social denominated bonds**. Whilst those are suitable for covered and senior preferred bonds, this is not the case in our view for capital securities (Additional Tier 1, Tier 2 and Senior Non-Preferred bonds), which are issued primarily with the regulatory purpose of absorbing extraordinary losses borne by the issuer. In such scenario there wouldn't be a segregation of green and brown assets, due to the fungibility of capital resources – and this not only dilutes the relevance of the green denomination but also raise questions around the capital eligibility of these instruments.

Individual engagement is also a central part of both our UNGC and ESG best-in-class screenings or through our monitoring of ESG controversies. We see divestment as a last-resort and put significant weight on engagement. Two examples are provided below.

Governance Shortfalls at Credit Suisse

In late March 2021, a number of banks suffered significant losses from the collapse of a US family office named Archegos. Credit Suisse, one of the top 20 names in the fund, came under the spotlight as the bank that suffered the highest amount of losses. Archegos' downfall was due to its excessive use of leverage, raising questions around the oversight role of the Boards on the lenders' risk appetite. The event had a direct negative effect on the bank's Governance assessment, but also deteriorated Credit Suisse's risk-reward. Therefore, following the event we reduced our exposure to the name, as we waited for the bank to take remedial actions. On April 6th, 2021, management announced a number of drastic remedial actions: (i) senior management changes; (ii) the launch of two independent investigations into the events leading up to the losses; (iii) the withdrawal of its proposal at 2021 shareholder meeting on discharge of the members of the Board of Directors and the Executive Board; (iv) amendment of its proposal on the distribution of dividends and withdrawal of its proposals on variable compensation of the Executive Board. The bank regulators took action to safeguard capital, imposing financial remediation to the bank. We gradually restored confidence on the company's fundamental and ESG commitment as the remedial actions were implemented, and new Credit Suisse's Chairman took over its role.

Lack of ESG Disclosure at BGC Partners

An investment in BGC Partners was flagged by our ESG best in class screening due to the company having a low ESG score. Based on the ESG team's assessment, this appeared to be mostly an issue related to the company's very limited ESG disclosure, while the ESG controversy profile of BGC only presented very few occasional or isolated events where the company had been reactive. The Algebris investment team and ESG team engaged with the company urging them to improve their disclosures on ESG issues and found that the company was both aware of their shortcomings in this area and pro-reactive about it. They pointed to a restructuring of the company's website around ESG disclosures as the first step, which indeed was delivered over the next few months. Algebris ESG team expects these improvements to be reflected in the upcoming ESG score updates.

3.2 Collective ESG Engagement

Algebris recognises the value of collective engagement undertaken together with other investors in pushing for better environmental disclosures globally. Our collective engagement efforts are currently anchored around participation to multiple public transnational initiatives.

Net Zero Asset Managers Initiative (NZAM)

Promoted by the Institutional Investors Group on Climate Change and led by a group of international asset managers committed to align their investments with the net zero emissions goals by 2050 or sooner. Algebris joined NZAM in March 2021, and in March 2022 we disclosed our NZAM AUM target, committing to align 57% of our total AUM (79% of AUM excluding mandates) with the net zero objective by 2050 or sooner. The target will be reviewed periodically – with a view to reach 100%.

This NZAM pledge has a direct implication at the portfolio management level and is incorporated in our ESG integration and engagement frameworks. Through the pledge, Algebris has committed to drive adoption of science-based emission reduction Targets across all underlying investments in the portfolios and funds that are included in the Firm's Net Zero AUM commitment, by 2040.

Say on Climate Initiative

An initiative supported by the Children's Investment Fund Foundation, CDP, and ShareAction, Say on Climate aims at pushing companies to publish climate transition action plans. As members of the initiative, we commit to encourage investee companies to submit a Climate Transition Action Plan at their AGM for a shareholder vote. This commitment is formally embedded in our voting policy – where we commit to promote and/or support AGM resolutions requiring such votes, whenever our investment comes with voting rights.

Carbon Disclosure Project (CDP)

A global non-profit organisation working to make environmental disclosure mainstream. CDP is the largest solicitor of direct, reported, primary environmental information worldwide and it holds the largest collection of primary carbon, water, and deforestation information. Algebris actively participates in CDP's Non-disclosure Campaign since 2021 – requesting investees to respond to climate change, forests and water security questionnaires developed and managed by CDP. In 2021, we targeted 4 companies wither as lead investors or co-signatories.

3.3 ESG Engagement with Policymakers

Algebris believes engaging pro-actively with regulators and other relevant bodies on a range of issues that are important to the firm, investors and to the sustainability cause. In 2021, we addressed a letter to EU authorities sharing our concerns that the unregulated nature of the ESG ratings industry might undermine EU efforts at fostering transparency on the sustainability credentials of investment products, creating a risk of green-washing, capital mis-allocation and product mis-selling.

Learn more about our voting policy: https://www.algebris.com/esg/policies-and-disclosures/

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