ALGEBRIS

Voting & Engagement Report

2022

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 our clients and the funds which we manage.

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, we 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

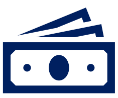
In 2022, Algebris exercised its voting rights at 167 companies, voting in 196 meetings and on more than 3000 proposals (table 1). Our voting activity has increased sizably over the past three years: in 2022 we voted at 98% of all the meetings called at investee companies and 89% of proposals, compared to 47% in 2019.

Algebris voted against the position of the companies' management in 8% of all proposals up for a vote. The majority of these contrarian votes (49%) were on matters of 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. Some examples are provided below.

Table 1 – Summary Voting Statistics

	2019	2020	2021	2022
Meetings Voted (n)	74	137	126	196
Meetings Voted (%)	47%	90%	91%	98%
Proposals Voted (n)	591	988	1040	3159
Proposals Voted (%)	46%	85%	89%	89%
Proposals Voted against Management (%)			4%	8%
Votes against Management, by topic:				
Compensation			49%	49%
Directors related			13%	7%
Capitalization			9%	12%
Routine/Bousiness			9%	4%
Reorganization / Mergers			2%	1%
Shareholder Resolutions			18%	8%
Other			..	18%
Shareholder Resolution Voted (% of total)			91%	97%
Shareholder Resolution Supported (% of those voted)			76%	70%

PRA Fine at Standard Chartered PLC



In December 2021, Standard Chartered was fined GBP 46. million by the Prudential Regulation Authority (PRA), the UK banking regulator, for failing to be open and cooperative with the PRA and for failings in its regulatory reporting governance and controls. The Remuneration Committee's response to the reporting and governance failings identified by the PRA did not appear adequate enough to reflect the gravity of the failures. Neither did the Committee appear to have fully utilised the available provisions to reduce awards in recognition of failures in risk management, financial reporting and financial losses, due to a material breach of regulatory guidelines. Algebris voted against the approval of the Remuneration Report, as part of a minority of dissenting shareholders. The proposal was approved with a support rate of 73%.

Excessive Remuneration at Davide Campari NV

The 2021 pay package amounted to EUR 9.8 million, mainly driven by the vesting of stock options not subject to performance conditions. The long-term incentive plan lacks performance objectives and the value of the award is determined based on a discretionary decision by the board and the long-term incentive plan has no award cap – in deviation from best market practice. The existence of a 'last mile' award possibility of up to 15 times the pay package (base + variable pay) raises concerns of excessive future pay-out. Algebris voted against the approval of the Remuneration Report, as part of a minority of dissenting shareholders. The proposal was approved with a support rate of 82%.

Lack of incentives at Banco Popolare di Sondrio

Algebris voted against a number of remuneration-related proposals at Banco Popolare di Sondrio, because the company still provides limited information on its remuneration policy and failed to disclose sufficient information, ex-ante and ex-post, on the performance criteria attached to the short-term component. The company has also not implemented any long-term incentive plan and the executive remuneration appears leaning to the short-term with insufficient correlation with company performance. Once again Algebris was part of a minority of dissenting shareholders, and all concerned proposals were approved with a support rate of 60-64%.

2.1 Shareholder Resolutions

In 2022, we voted on 200 shareholder resolutions across all funds – or 97% of all votable resolutions, up from 91% in 2021. Of the shareholders resolution that were voted, 70% (ie. 139 out of the total 200) were voted in favour. In accordance with our voting commitment in the context of Say on Climate Initiative, we supported all shareholder resolutions asking investee companies to set climate action plans. In two cases (Citigroup and Goldman Sachs) we supported the shareholders' request that the banks adopt a financing policy consistent with the IEA's Net Zero Emissions by 2050 Scenario, voting against both management's and ISS research's recommendations. Some examples are provided below.

Indigenous Rights Resolution at Citigroup Inc

Shareholders submitted a proposal requesting that Citigroup Inc. prepare a report on its due diligence processes with respect to financing that might impact Indigenous Peoples' rights – in particular regarding the potential involvement of Citigroup in controversial tar sands projects that allegedly failed to obtain free, prior, and informed consent (FPIC), and risked violating the rights of Indigenous Peoples. In accordance with the view that shareholders would benefit from increased disclosure on the effectiveness of Citigroup's existing due diligence process around Indigenous Peoples' rights for project-related financing, Algebris supported this resolution as part of a minority of shareholders, but the resolution was rejected by a majority of 64%.

Net Zero Financing Resolution at The Goldman Sachs Group and Citigroup Inc

Shareholders submitted proposals at both banks requesting the adoption by the end of 2022 of a policy committing to proactive measures to ensure the company's lending and underwriting do not contribute to new fossil fuel development. The request was consistent with recommendations from UNEPFI to the G20 Sustainable Finance Working Group and with the IEA's Net Zero Emissions by 2050 Scenario. Algebris supported both resolutions, as part of a minority group. Both resolutions were ultimately rejected by a ~85% majority of sharehoders.

3. Other Engagement Initiatives

We aim to use our role as investors to achieve positive change, and hence place high importance on actively engaging with investee companies. We maintain our commitment to stewardship of investee companies throughout the lifecycle of the investment, through ongoing monitoring of ESG credentials and progress. We conduct both individual engagement on specific issues and collective engagement on broader 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. 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 generally see divestment as a last-resort when engagement fails or when we deem the concerned company's failures to be too significant and persistent to be realistically remedied via engagement.

Algebris investment professionals hold ongoing dialogues with investee companies, typically done in the form of calls and meetings with management, following publication of results or upon presentation of industrial plans. The Algebris ESG team may also be involved in those conversations.

In our individual engagement with investee **banks**, we are vocal on the need for them 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. Some examples of individual ESG engagements are reported below.

Generally, we are witnessing increased awareness and openness of companies to address climate related issues and adopt climate targets. In the 2022 AGM cycle, for example, Climate plans and/or Climate reports were submitted by management at 5 of the companies in which Algebris held voting rights – 4 of which were major banks. We are committed to continue engage on this key topic in 2023 and following years.

Be-Spoke Questionnaires sent to Italian SMEs

The Algebris Italian Securities Strategy invests primarily in equity securities of Italian companies, focusing on the small and mid-capitalization segment of the market. It is well known that coverage of the SMEs segment from third-party ESG data providers has significant gaps. In 2022, the Fund's investment team rolled out a proprietary ESG questionnaire that was sent to more than 20 companies. The team will continue running this exercise in 2023, engaging also with the companies to achieve a higher response rate.

BPER, Barclays, Nationwide Building Society

These are few examples of individual engagement carried out by the investment team in 2022. The team discussed ESG matters with each banks' representatives, focusing in particular on the banks' ESG targets to be included in the future reporting and business plans, the banks' GHG reduction targets, the disclosure of financed emissions, as well as renewable energy lending targets. The ESG team has identified and monitors a list of KPIs to inform our engagement activity with financial institutions. This information includes (a) the sustainability-related data disclosed by the company and the quality of the disclosure; (b) ESG Ratings provided by a series of Rating companies MSCI/Sustainalytics/S&P Trucost/ISS/CDP; (c) the amount of financing directed to controversial sectors – in particular fossil fuels; (d) data on the financial institution's commitment to financing green initiatives; (e) financed emissions, such as emissions related to the assets/loans on the bank's balance sheet; (f) the existence of commitmensts to set science-based emission reduction targets; (g) whether executive and senior remuneration is linked to the *achievement of sustainability-related targets; (h) the extent of the banks' exclusion policies on the fossil fuels sectors and the existence of a phase-out timelines. This data is not available on a consistent basis for many institutions. When it is not available, disclosure and increased transparency become one of the key topics discussed by the investment Team during engagement.*

Incomplete ESG Disclosure at DR Horton

An investment in DR Horton (a US homebuilder) 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 limited ESG disclosure and only in a limited part to the company's ESG controversy profile. The ESG score was only marginally below the threshold and the exposure was small. On the basis of this information, Algebris' investment team and ESG team engaged with the company to establish the nature of the poor score. The call confirmed the ESG team's assessment that the low score was linked to limited disclosure and the company team confirmed that they were aware of the issue and working on it, aiming for the publication of a separate sustainability report and inclusion of ESG disclosures in SEC filings. The DR Horton team further mentioned that while the company did respond to several questionnaires from ESG third party providers, they had not yet responded to the one sent from the provider's that Algebris had sourced the score from. Scores from a different provider – that were retrieved by the Algebris ESG team afte the call – were indeed significantly higher.

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 in multiple public transnational initiatives. Some examples are provided below.

Carbon Disclosure Project (CDP) – Non-Disclosure Campaign

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 2022 we engaged with 24 investee companies as either lead investors or co-signatories – up from 4 companies targetd in 2021. Algebris led the engagement on 8 of these 24 companies, and 5 engagements (63%) of the 8 that Algebris led were successful – including with one company that Algebris had already been leading (unsuccessfully) in 2021.

Net Zero Asset Managers Initiative (NZAM)

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%. 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.

3.3 ESG Engagement with Policymakers

Algebris believes engaging pro-actively with governments, regulators and other relevant bodies on a range of sustainability issues that are important to the firm and to investors. In 2020 and 2021 we addressed letters to EU authorities sharing our concerns on ESG matters. In both 2021 and 2022 we signed the Global Investor Statement to Governments on the Climate Crisis, promoted by The Investor Agenda, urging governments to take action action to limit global temperature rise to 1.5ºC above pre-industrial levels.

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