



Algebris Investments
Shareholder Engagement Policy
April 2021

SHAREHOLDER ENGAGEMENT POLICY

1. Introduction

The amended European Shareholder Rights Directive II (“SRD II”), which is applicable as of 10 June 2019, includes certain transparency obligations for European institutional investors – i.e. pension funds, insurers and more recently European asset managers to the extent investments in EU equity instruments are made.

This is the engagement policy of Algebris (UK) Limited, a company incorporated under the laws of England and Wales, which is authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom and Algebris Investments (Ireland) Limited, a company incorporated under the laws of Ireland which is authorised and regulated by the Central Bank of Ireland collectively “we” or “us” or “the Firm”.

2. Scope

We are very committed and well positioned to adhere to SRD II which aims to encourage long-term shareholder engagement. We have a long-standing focus on responsible investing and long term shareholder engagement. We ensure we constructively engage with investee companies and to serve the long term interests of our clients.

This engagement policy forms part of our stewardship activities and applies to shares held in any investee company with a primary or secondary listing of those shares on a UK regulated market, or an EEA market or a comparable market outside the UK or EEA (and which are collectively referred to as “Companies” and “Shares” respectively).

3. Investment Management Activities

Our investment management activities are focused on the financial sector, primarily global systemically important financial institutions (G-SIFIs). Algebris primarily invests in fixed income credit with investment in shares forming only a small proportion of overall assets under management. The investment strategies of Algebris that may invest in shares are:

- Financial Equity
- Financial Credit
- Global Credit
- Italian Securities

Our financial equity and credit strategies focus on the global financial sector including major banks, financial companies, insurance companies, securities brokers, asset management companies and real estate companies. Our global credit strategy combines top-down macro asset allocation and bottom-up micro analysis to investments, hedging macro risks and optimising diversification and liquidity. Our Italian securities strategy invests primarily in equity and credit of listed Italian companies, focusing on small and mid-capitalisation companies.

Algebris fully embraces the growing importance of assessing and engaging on ESG and sustainability in its investment processes and wider activities. As part of our framework of ESG investment integration, we take various approaches which are summarized below:

1. **Screening and exclusion** – a negative screening process which excludes certain securities from the investment universe by virtue of ethical, environmental and other non-economic factors, or a positive screening process which includes certain securities (depending on investment potential).
2. **Environmental, social and governance (“ESG”) factors** – identifying certain characteristics of a security (that may not be reflected in its price) which may impact its appeal from a financial and non-financial perspective, as well as assessing the overall alignment of portfolios with ESG factors.
3. **Engagement** – seeking to direct the behaviour of an investee company in which a fund is invested to enhance their long-term sustainability through a focus on good ESG practices or on remedying bad ESG practices.

4. Integration of Shareholder Engagement

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. Algebris' investment selections undergo exhaustive due diligence and a highly disciplined approach to risk control.

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.

5. How are Companies Monitored

Below are the areas we focus on in order to monitor strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance of the companies we invest in.

Engagement

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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.

The Firm's portfolio managers engage in Active Ownership, with a view to reducing the risk of particular positions falling outside of risk appetite/limits. Active Ownership is the process of exercising voting

rights attached to securities and/or entering into dialogue with issuers. For example on ESG issues, exercising voting rights and/or entering into a dialogue with a view to monitor or influence ESG outcomes within the issuer. Algebris will exercise voting rights attached to securities in accordance with the Algebris Voting Policy.

Environmental, social and governance

Algebris has a firm-wide Environmental, Social and Governance (“ESG”) Policy that describes our approach to ESG from firm resources and practices, to the integration of ESG factors into the investment process.

Algebris has a commitment to responsible investing and an important part of this commitment is to ensure that the Firm is not involved in the financing of certain activities that we deem unethical and/or especially harmful to the environment and society at large. Currently we apply the following exclusion policies: In addition to the ESG Policy, Algebris has also established the following:

- Controversial Weapons Exclusion Policy
- Coal Sector Investment Policy
- Predatory Lending Exclusion Policy
- Tobacco Exclusion Policy

The policies and respective exclusion lists are publicly available on our website at this [link](#). All our exclusion policies apply at firm level, to all liquid Algebris-branded funds where Algebris controls the investment policy in its capacity as the sole investment manager. Algebris also permits individual investors within our segregated managed accounts to create their own additional exclusion lists.

On top of the firm-level exclusion policies, we apply various approaches to ESG investment integration across our investment strategies, taking into account the focus of each strategy, as well as the geographic and sector composition of the respective investment universe.

The **financial credit and financial equity strategies** are subject to a screening aimed at assessing the performance of investee and potential investee companies through a screening aligned with the 10 Principles of the UN Global Compact (UNGC). This screening is underpinned by quantitative and qualitative analysis carried out by our ESG research team, with data from specialized ESG data provider Vigeo Eiris (VE) and internal research.

The aim of our UNGC is threefold:

- to reduce exposure to companies with poor practices in UNGC-relevant areas
- to identify potential issues on which to engage with companies that we retain in the portfolio
- to identify companies that do especially well in terms of their UNGC alignment, and keep the aggregate UNGC alignment of our portfolio above sector’s average

We closely monitor the broader ESG performance of investee companies in our financials portfolios and apply to our financial credit and financial equity strategies a best-in-class ESG screening, similar to our UNGC screening from an operational standpoint. More operational details about the ESG screening and the UNGC screening are available in our ESG and Responsible Investment policy.

The **Italian Securities strategy** invests primarily in equity securities of Italian companies, focusing on the small and mid-capitalization segment of the market. Starting in 2021, the strategy fund will roll out

a systematic best in class screenings based on ESG metrics. Due to the skew of the portfolio towards small caps, only around 40% of the names that are typically in the portfolio are covered by the ESG scoring services that we receive from third party providers. The lack of third-party ESG data on small caps is a known challenge that common across the ESG rating industry, and to account for the specificity of the Core Italy Fund we have devised a two-pillars best-in-class strategy:

- For companies that are covered by our third-party ESG score services: we will set up a systematic screening based on the ESG scores from S&P-Robeco and a focus on assessing compliance with the 10 principles of the UN Global Compact.
- For companies not covered by our third-party ESG score services: we will submit a proprietary ESG questionnaire. The questionnaire will feature a set of common questions and a set of sector-specific questions, with some of the key common questions being flagged as essential for a company to be deemed investable.

Our **Global Credit** strategy invests across sovereign, bank and corporate debt globally, hedging macro risks and optimising diversification and liquidity. The Fund adopts a multi-strategy, flexible approach, including with the ability to take long and short positions, employ prudent leverage and use derivatives where appropriate. Starting in 2021, the investment team will also monitor ESG metrics of the investee companies and seeks to achieve a good ESG performance for the portfolio on average. The dedicated AI/Big Data team of the Algebris group is further developing an AI-driven controversy monitoring tool to monitor the increase of potential ESG-related controversies relating to investee companies.

What dialogue do we have with Companies?

Across all our strategies, we see divestment as a last-resort options – because divesting implies giving up on the opportunity to tray and achieve positive change. Hence, we do not apply our screenings in a mechanical manner, but instead put significant weight on engagement with the investee companies.

We conduct two types of engagement on ESG matters:

- *Ad hoc Engagement*
- *Thematic Engagement*

Our goal is to positively influence the behaviour of investee companies to improve the long-term sustainability of their business models. To this end, we may conduct ad hoc engagement with companies on specific issues that we identify in relation to their ESG metrics and performance. In 2021, we are thoroughly restructuring our engagement process, in a way that will make it easier to report engagement metrics.

As a rule, the investment team will engage with any investee company that is flagged and/or watch-listed through our UNGC or ESG best-in-class screenings. In coordination with the ESG team, the investment team will reach out to management detailing our concerns. The engagement and the responses received will be included in an engagement log that will constitute the basis for our year-end engagement report.

If the investment team concludes that engagement is unlikely to be effective, the endpoint of this process will be divestment. If, on the other hand, the investment team concludes through engagement that there is enough reassurance of a credible commitment on the side of the investee company, the position could be maintained for longer – based on a detailed and transparent documentation of the

reasons for this choice on the side of the investment team, and subject to close and frequent monitoring of the expected progress. More operational details on the engagement process are available in our ESG and Responsible Investment Policy.

Starting in 2021, in view of our specialised focus on the financial sector and our various commitments to collaborative engagement initiatives we will be also conducting a thematic engagement with banks aimed at ensuring a proper recognition of climate risks. This engagement will be centred around three pillars:

- **Carbon Disclosure Project Non-Disclosure Campaign:** in 2021 we will take part to the CDP Non-Disclosure Campaign, requesting investee companies to respond to a climate change, forests and water security questionnaire developed and managed by CDP.
- **Say on Climate Initiative:** in alignment with the commitment stemming from our participation to the initiative in relation to our equity positions, we will also ask banks in which we hold credit positions to submit a Climate Transition Action Plan at their AGM for a shareholder vote.
- **Portfolio Disclosure:** we regard banks as the gatekeepers for the transition to a greener and more sustainable economy, but data on the carbon intensity of banks' lending is scarce and disclosure is still poor. In 2021, we will ask investee banks to report the carbon intensity of their corporate loan book, where they have the data, in a manner consistent with the Partnership for Carbon Accounting Financials (PCAF) framework. We will also ask them to report a strategy for (1) increasing the nominal value of loans whose emissions are disclosed and (2) achieving annual reductions of the carbon intensity of their loan book and underwriting.

How do we exercise our voting rights and other rights attached to shares?

Algebris will exercise all relevant voting rights and other rights attached to shares in accordance with the Algebris Voting Policy which sets out the policy and related procedures of the Firm with respect to the exercise of voting rights attached to investments made by the Firm on behalf of its client and the funds which it manages.

Generally, voting decisions are made on a case by case basis following an assessment of the matter at hand and taking into consideration its likely effect on the performance of the investments. Algebris will also consider long-term sustainability of each issuer when deciding to vote. All votes will be cast in the best interest of the relevant clients.

Algebris is a supporter of the Say on Climate Initiative (see below for more information). Therefore, 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 the shareholder vote.

Public Disclosure

As noted the Firm will exercise its voting rights and other rights attached to the shares in its investee companies in accordance with its investment objectives, and may seek to influence the shareholder agenda and the outcome of resolutions put to the shareholders, and will generally actively exercise the voting rights attached to the shares, in connection with its strategies. However, public disclosure of the Firm's exercise of votes in the general meetings of companies in which its clients hold shares is not currently in the interests of its clients as doing so may:

- (i) cause the relevant company or its management to have a false perception that any precedent or pattern in voting may give an indication as to the Firm's future voting intentions;
- (ii) (cause the Firm to be in breach of confidentiality undertakings provided to the relevant company; and, as a result of the foregoing,
- (iii) restrain the Firm's ability to have constructive, private and confidential discussions with the management of relevant companies.

The Firm will therefore not at present comply with the disclosure requirements set out in COBS 2.2B.5R(1)(b) but will be able to provide high level aggregate figures upon request. Should the above change the policy will be updated accordingly.

How do we co-operate with other shareholders?

Algebris cooperates through its involvement in various initiatives and has been a signatory to the United Nations Principles for Responsible Investment ("UN PRI") since 2019.

In 2020, we have become supporters of the **Task Force on Climate-related Financial Disclosures (TCFD)** and joined the **Carbon Disclosure Project (CDP)** as an investor signatory. In 2021, we will participate to CDP's Non-disclosure Campaign – requesting investee companies to respond to a climate change, forests and water security questionnaire developed and managed by CDP.

As noted above in 2020, we also joined the [Say on Climate Initiative](#). The initiative - supported by the Children's Investment Fund Foundation, CDP and ShareAction – stems from a recognition that companies and investors are failing to address climate change, and there is growing need for companies to publish a climate transition action plan. Only 2.5% of companies have committed to set a Science-Based Target and fewer than 100 companies globally face their shareholders on climate change each year, largely ad hoc. We believe that this instead must be the standard for every company, every year, and as members to the initiative we commit to encourage all listed companies to submit a Climate Transition Action Plan at their AGM for a shareholder vote. Where companies will not do so voluntarily, we commit to vote for or file AGM resolutions requiring such votes. This commitment has been formally embedded into the Algebris Voting Policy.

In 2021 we are joining the [Net Zero Asset Mangers Initiative](#) - promoted by the Institutional Investors Group on Climate Change (IGCC). The Net Zero Asset Managers initiative is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

What actions do we take to manage actual and potential conflicts of interest?

The Firm has various policies in place in order to mitigate conflicts of interest, these include – Conflicts of Interest, Gifts & Entertainment, Order Execution and Allocation. The Conflicts of Interest Policy sets out how the firm will identify circumstances which may give rise to conflicts and establishes appropriate mitigants and systems to manage any conflicts that may arise. Various arrangements have been put in place with a view to taking all appropriate steps to prevent conflicts of interest from constituting or giving rise to a material risk of damage to the interests of any client. All conflicts and the arrangements in place to mitigate them are contained in the Conflicts Register.