

FISHER INVESTMENTS EUROPE™



**UK STEWARDSHIP CODE  
2023 REPORT**



## OUR QUEST TO BETTER THE INVESTMENT UNIVERSE

Since Fisher Investments' founding in 1979, Fisher Investments and its subsidiaries, which includes Fisher Investments Europe Limited, has been dedicated to bettering the investment universe. One of our guiding principles is to always put our clients' interests first. We believe proactive service, straightforward communication, and continuous investment education are critical to our clients' long-term investing success.

Over time, we have grown and now have more than 5,400 employees worldwide operating in cities and communities across the United States, Canada, Costa Rica, Europe, Australia, the Middle East, and Japan. We manage over £143 billion in assets under management across private and institutional clients. Such success brings a distinct responsibility for stewardship, and we are pleased to present the following Stewardship Report that details how our Responsible Investments Programme and organisation at large embodies the principles of the UK Stewardship Code.

We are proud of how far we've come, and remain steadfast in our commitment to continually innovate and adapt our services in order to fulfill our obligation as optimal stewards for our clients' assets.

Thank you for your interest in Fisher Investments Europe Limited.

Sincerely,

A handwritten signature in blue ink, appearing to read 'JA', with a large, stylized flourish extending to the right.

Justin Arbuckle  
Director, Fisher Investments Europe Limited  
Senior Executive Vice President, Institutional Group, Fisher Investments

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The following is presented by Fisher Investments Europe Limited<sup>1</sup>, trading as Fisher Investments Europe (FIE), who outsources portfolio management to its parent company Fisher Investments (FI). Unless otherwise specified, references to investment professionals<sup>2</sup>, operations personnel, and middle and back office personnel are references to FI employees. "We", "our," and "us" generally refer to the combined capabilities of the Fisher group of companies, including FIE (Fisher Group).

## PRINCIPLE 1: PURPOSE AND GOVERNANCE

*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.*

### Organisational Purpose

Fisher Investments (FI) and its subsidiaries, including Fisher Investments Europe (FIE), perform investment management services globally for private clients, small businesses, and institutions. As of 31 December 2022, we manage over £143 billion GBP in AUM<sup>3</sup>. Both FIE and FI are committed to protecting the interests of clients and always placing their interests first. FI is a United States Securities and Exchange Commission (SEC) registered investment adviser, and as such has a fiduciary obligation to clients. FIE is authorised and regulated by the United Kingdom Financial Conduct Authority (FCA) and conforms to all fiduciary requirements set forth by the FCA.

FI and its subsidiaries consist of four business units – Fisher Investments Institutional Group (FIIG), Fisher Investments US Private Client Group, Fisher Investments Private Client Group International, and Fisher Investments 401(k) Solutions Group. For separately managed accounts, FIE serves as the investment manager and FI serves as the sub-investment manager. FI's Investment Policy Committee (IPC) is responsible for all investment decisions for the firm's strategies.

We are committed to strategically expanding our capabilities in hopes of bettering the investment universe. Our focus is deeply rooted in delivering unparalleled service, being good stewards of the assets entrusted to us, in addition to continuous education and appropriate solutions for our clients.

Our company Vision Statement (excerpt following) is the "North Star" guiding our core beliefs and purpose. It is the primary mechanism by which we promote and ensure our unique culture across all employees, worldwide.

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## VISION

### **Boldly Pioneering Tomorrow's Investment Solutions Today, Assuring Success**

- We will maximize the firm's long-term enterprise value by independently striving to dominate our chosen markets.
- Our quest requires delivering unparalleled service, continuous education, and appropriate solutions to our clients and always considering their interests first.
- We believe in directness, delivering personal via machine, driving quality through scale, being fact-driven, and demanding metric-based accountability.
- We will develop human capital from within by building breadth and depth in individuals. We endeavor to build lifelong careers and reward those embodying loyalty, flexibility, and "will-do".
- To succeed, we must have an inclusive culture, actively developing and supporting diversity across the vast spectrum of human differences, creating a place of authentic belonging for all.
- Along this journey, we seek to better the investment universe by doing what others haven't done yet. We will create knowledge, foster innovation, embrace change, and be unconstrained by convention.

## Investment Beliefs

We believe a top-down approach allows us to develop and maintain a comprehensive and differentiated perspective for identifying and exploiting opportunities in global equity markets. Our strategies employ this belief by utilising a top-down investment process based on applying our unique capital markets research to the analysis of a wide range of economic, political and sentiment drivers to formulate macro forecasts and develop portfolio themes.

We believe the equity market structure creates opportunities for top-down managers to generate alpha in the global market space, as decisions on how to overweight or underweight key countries and sectors can dramatically impact relative return. Additionally, our strategies seek to add value at the security level, but we believe traditional individual security research is most effective when used to complement higher-level portfolio themes and characteristics. We believe this top-down analysis provides a unique understanding of when the market is likely to reward a company's strategic attributes, ultimately contributing to the outperformance of the particular security.



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We incorporate stewardship throughout our investment process in a manner that simultaneously focuses on our fiduciary duty to clients and supporting client desires for long-term results (rather than immediate returns), while also allowing for repeatability in the application of our investment process. FI's formal ESG Philosophy Statement states:

*We believe ESG investors are best served by an investment process that considers both top-down and bottom-up factors. Integrating ESG analysis at the country, sector and security levels consistent with clients' investment goals and ESG policies maximises the likelihood of achieving desired performance and improving environmental and social conditions worldwide.*

## 2022 OUTCOME

Throughout the year, we took several actions to further implement our ESG Philosophy Statement. This includes launching new ESG investment strategies and enhancing existing ESG investment strategies, developing internal frameworks to further support compliance with new ESG regulations around the world, maintaining existing Ecolabel certifications, and enhancing our engagement capabilities. These actions are further detailed in the table at the end of Principle 1.

Our ESG Policy Statement is available on our [website](#) and provides an in-depth discussion of our actions to implement our Responsible Investments programme. This includes:

- How financially material ESG factors are integrated into our investment process and detailed descriptions of our broader responsible investment capabilities made available to our ESG clients;
- How we monitor our holdings;
- The data providers we use;
- Our approach to active ownership.

## Strategy

FI's Investment Policy Committee (IPC) serve as the portfolio managers for all of our strategies. The IPC has five members and, to help facilitate ESG integration, one member is designated as the ESG point person.

We believe our top-down approach allows us to better identify and exploit global equity market opportunities by uncovering inefficiencies through unique, proprietary analysis of widely available information. Our approach focuses on three basic decisions ultimately made by the IPC and based upon research conducted by the Capital Markets Research and Securities Research Analysts. This top-down approach allows us to gain exposure to the macro themes, countries (where applicable), sectors/industries, and securities we believe are most likely to generate the highest expected returns:

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1. **Global Macro Theme and Forecasts:** Identify where we are in the market cycle and macro themes for the portfolio.
2. **Country Exposure and Sector/Industry Exposure:** Identify the countries (where applicable) and sectors/industries most likely to outperform or underperform versus the benchmark.
3. **Security Selection:** Identify the security or group of securities within a particular category increasing the likelihood of beating the overall category.

We expect alpha over time to equally be attributable to country (where applicable), sector/industry, and security decisions.

Our top-down approach is well-suited to accommodate ESG integration and effective stewardship. Many responsible investment topics are actually macro themes – examples include climate change or human rights risks – where understanding the global drivers helps to guide decisions about sector exposure and security selection. For a complete description of our ESG integration activities please see our response to Principle 7 below.

FI and its affiliates have been managing responsible investment accounts with various thresholds of environmental or social guidelines for more than 25 years. Over time this approach has enabled us to expand the depth of our responsible investment capabilities, and we currently offer a wide range of ESG strategies, including impact-related strategies incorporating the UN Sustainable Development Goals (SDGs), strategies aligned with the Paris Agreement, and strategies with varying thresholds of sustainable investment commitments. We integrate financially material ESG factors throughout the investment and portfolio construction process, and are an active owner by voting proxies and conducting direct corporate engagements. As of 31 December 2022, FI and its affiliates managed accounts valued at over £12 billion with ESG, religious and/or socially-responsible investment (SRI) guidelines.

## Our Culture

As a leading privately owned investment adviser, our culture is deeply rooted in continually developing new, innovative approaches to asset management and delivering unparalleled service to our clients. We develop human capital from within by building breadth and depth in individuals, and endeavour to build lifelong careers by providing our people with the opportunity to succeed and the accompanying rewards for achievement. We love the fact that employees join the Fisher Group and choose to stay and establish a lifelong career. Much of our management is comprised of employees who turned their first job at the Fisher Group into their life's work.

**Our culture drives our success;** by creating a positive, productive and rewarding work environment, we are able to maximise the quality of service we deliver to each and every client. In doing so, the Fisher Group is proud to be recognised as a great place to work and a great place to work for women<sup>4</sup>.



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## Assessment of Effectiveness: Our Culture – Enabling Effective Stewardship

We have been managing responsible investment accounts with various thresholds of environmental or social guidelines for over 25 years. We are committed to incorporating ESG factors in our investment decision-making and ownership practices, in order to help meet and exceed the wide spectrum of investment objectives and goals across our global client base.

Our growing Responsible Investments programme is led by members of our Portfolio Management Group (PMG) and our Institutional Group (FIIG), which places stewardship in the dual realms of investment management and client service. Furthermore, we understand that we are stronger together, as such, we are an active participant in, or a signatory/supporter of, several responsible investment initiatives. These include the PRI, the UK Financial Reporting Council's Stewardship Code, the UN Global Compact, the Climate Action 100+, the CDP (formerly "Carbon Disclosure Project"), and the Task Force on Climate related Financial Disclosures (TCFD).

To drive our vision of bettering the investment universe and to uphold our culture of unparalleled client service, we continuously seek ways to strengthen our products and services. Please find below an assessment of our effectiveness in serving the best interests of clients and beneficiaries through our responsible investment objectives and activities from 2022:

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## 2022 Outcomes

Objective	Activities	Outcomes
Enhance ESG integration into our equity and fixed income investment processes and portfolio construction	<ul style="list-style-type: none"> <li>Throughout 2022, we launched 10 new ESG, SRI or Impact strategies.</li> <li>We launched the firm's first Paris Aligned/Net Zero strategy.</li> <li>We enhanced 9 existing products to meet the elevated Article 8 requirements of the EU's Sustainable Finance Disclosure Regulation (SFDR).</li> <li>We enhanced 1 existing UCITS Fund to meet the elevated Article 9 requirements of the EU's SFDR, becoming the firm's first 100% Sustainable Investment strategy.</li> <li>We expanded our ESG data services by subscribing to data for EU Taxonomy, SFDR and Climate Value-at-Risk reporting.</li> <li>We produced over 60 discrete internal ESG-related research pieces that were presented to FI's Investment Policy Committee (IPC).</li> <li>We enhanced the "ESG red flags" portion of our fixed income process and are assessing additional avenues to deepen the integration of ESG into fixed income strategies.</li> </ul>	<p>We significantly increased our responsible investment offerings in 2022.</p> <p>We are integrating a broader range of ESG datasets into our investment process than previously.</p>
Offer best-in-class strategies that enable our clients to meet their own responsible investment objectives	<ul style="list-style-type: none"> <li>We tailor our strategies to reflect the client's objectives and priorities.</li> <li>Our Emerging Markets Responsible Equity ex-Fossil Fuels Fund won the "Climetrics Award" from the CDP<sup>5</sup>.</li> <li>Our US Small Cap Core ESG Fund won the "Swiss Sustainable Funds" Award<sup>6</sup>.</li> <li>We maintained the Belgium 'Towards Sustainability Label' certification for two funds (which have held this Ecolabel since 2021).</li> <li>We maintained the Austrian Ecolabel certification for one fund (which has held this Ecolabel since 2020).</li> <li>We offer custom client reports that detail a portfolio's SFDR/PAI/EU Taxonomy alignment, carbon footprint/TCFD, progress toward the Sustainable Development Goals, ESG Scores, and proxy voting.</li> </ul>	Our clients have a wider range of investment options and portfolio monitoring tools to meet their responsible investment objectives.
Increase corporate engagement activities, including collaborative engagements and client co-engagement	<ul style="list-style-type: none"> <li>We added staff to our dedicated Investor Responsibility and Engagement (IR&amp;E) team to increase the depth and breadth of our corporate engagements.</li> <li>We participated in 29 collaborative engagements, an increase over the previous year, alongside other institutional investors and continue to pursue additional opportunities. We also requested 38 companies disclose environmental data to CDP.</li> <li>We held 3 client co-engagements with corporate issuers in 2022, which are also included as collaborative engagements in the previous bullet.</li> </ul>	We increased our engagement activity over the previous year and continue to request better ESG disclosure from portfolio holdings across geographies, sectors, and market caps.



## PRINCIPLE 2: PURPOSE AND GOVERNANCE

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

Our most important stewardship resource is our staff, the people that develop and implement our Responsible Investments programme. We also have a number of governance structures and processes in place to foster effective stewardship – several are described below, along with details regarding resources that support each.

### Investment Policy Committee (IPC)

The IPC serves as the portfolio managers for all of our strategies, and is responsible for all strategic investment decisions, including integration of relevant environmental, social, and governance factors into our top-down investment process. We believe one of our competitive advantages is the IPC's tenure and stability. Two of FI's Co-Chief Investment Officer's, Ken Fisher and Jeffery Silk, have worked together at the firm for nearly 40 years and all five members of the IPC average 29 years of experience at FI. The IPC has successfully applied the same investment process across our strategies and managed accounts with various thresholds of environmental or social guidelines for over 25 years.

Directly supporting the IPC is FI's Research Department, comprised of 63 Research Analysts (as of 31 December 2022). Research Analysts support the IPC in their decision-making process, including ESG integration.

The IPC members and Research Analysts participate in a number of industry ESG-related professional development activities. For example, a majority of FI's ESG Specialists (including one Portfolio Manager) have completed PRI's Academy courses.

### Research Department

FI's Research Analysts generate macroeconomic, capital markets, and securities research. The 63 Research Analysts are divided into four teams: Capital Markets (top-down research), Securities (bottom-up research), Capital Markets Innovation (theoretical research), and Portfolio Engineering (product specialists). The average industry experience of our Research Analysts is 12 years (as of 31 December 2022).

FI has appointed six ESG Specialists across the Research Department, the Fisher Investments Institutional Group (FIIG), and FI's Investment Policy Committee (IPC). FI's ESG Specialists are responsible for staying up to date with current and developing ESG trends, supporting the broader research organisation, and briefing the IPC when appropriate. Moreover, the ESG Specialists support and monitor the application of ESG analysis among the Research Department and liaise with our ESG data providers to verify the accuracy and comprehensiveness of the data we use in our decision-making.

ESG Specialists receive training designed to help them confirm compliance with client mandates, including training on the use of MSCI ESG Research. These specialists are responsible for training

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Research Analysts and Institutional Relationship Managers on ESG issues. All Securities Research Analysts receive training on evaluation of equities, including, but not limited to, identifying potential performance risks presented by ESG issues.

## Responsible Investments Committee

We established a Responsible Investments Committee that is co-chaired by a member of FI's IPC and the Senior Executive Vice President of the Institutional Group (FIIG). The Committee meets quarterly and consists of approximately 30 members. The Committee's duties and responsibilities include:

- Supporting our ESG and sustainability activities and policies.
- Ensuring alignment of Responsible Investments (RI) initiatives with firm's strategic priorities.
- Providing oversight of Fisher's RI Programme.
- Staying abreast of industry trends and helping to ensure FI is a leader in responsible investment.
- Initiating the development of new responsible and sustainable investment strategies.
- Reviewing effectiveness of current ESG analysis, integration, data availability, and reporting.
- Initiating ESG and sustainable research content.
- Educating key stakeholder groups within the firm on ESG matters.



## Institutional Group - Dedicated Stewardship Roles

In addition to the IPC and ESG Specialists, the Institutional Group has continued to build a dedicated Responsible Investments & Engagement vertical. This vertical consists of the Investor Responsibility and Engagement (IR&E) team and the Responsible Investments (RI) team. Both teams report to the Senior Executive Vice President of the Institutional Group.

The IR&E team was fully formed in 2020 and has continued to bring breadth and depth to our corporate engagement programme since its origin. This team continued to expand in 2022, bringing on a second Engagement Analyst to support the Fisher Group's growing engagement activities. The IR&E team now consists of a Vice President (VP) of Investor Responsibility and Engagement, two Engagement Analysts, and one ESG Project Coordinator. Further, in 2022, the RI team was formally built out with the staffing of a Responsible Investments Programme Manager. This team now consists of a VP of Responsible Investments and the aforementioned Programme Manager.

Collectively, this vertical had 49 years' experience in responsible investing (as of 31 December 2022). We are proud to share that this vertical has already experienced further professional development in 2023, and there are plans to continue expanding headcount across these teams in 2024.



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## **Team Responsibilities & Resources**

The RI team is responsible for further developing and expanding the RI Programme within the Institutional Group. This includes responsibilities such as enhancing RI processes, creating RI policies, supporting the development of new ESG strategies, coordinating compliance with global RI regulations and frameworks, and providing ESG subject matter expertise for our clients.

### 2022 Outcome

The formal build-out of a dedicated RI Team has been integral in relation to supporting global ESG/RI regulations such as the EU's Sustainable Finance Disclosure Regulation (SFDR). In 2022, the RI Team coordinated the creation and distribution of annual SFDR periodic reporting to in-scope clients, a requirement of SFDR.

The IR&E team collaborate with Research Analysts to engage companies on significant ESG issues. The team utilises a top-down approach to prioritise sectors and issues, and then applies bottom-up analysis to identify company leaders and laggards. Common engagement themes include climate change, stewardship of natural resources, and respecting human rights. Engagement objectives are established at the outset and progress is tracked over time. Many of our engagements are conducted individually, however, we also engage collaboratively with other investors and institutional clients to achieve common goals. An example of successful outcomes for these roles is the year-over-year increase in engagement activity in 2022, as highlighted in Principle 1. Further outcomes related to this team's efforts can be found in Principles 9-12.

FI contracts with ISS ESG's Collaborative Engagement Service (ISS CE) to increase the IR&E team's capacity to conduct norms-based engagements, such as those related to alleged violations of the UN Global Compact. In addition, FI is a signatory to CDP, and the IR&E team uses CDP data in its engagements.

### 2022 Outcome

In the 2022 reporting period, the ISS CE service facilitated engagements with 19 companies on global norm-based concerns related to regulatory actions, collective bargaining & unions, pollution & waste and human rights.

## **Institutional Group - Client Guidelines and Assurance Team (CGA)**

Within our Institutional Group, the CGA team is responsible for ensuring compliance with client investment guidelines. This team is independent of the investment management team and reports to the Group Vice President of Institutional Service. CGA enters restrictions into our order management system (Charles River Investment Management Solution (CRIMS)) and monitors client account activity. Sanctioned entities are identified by subscribing to notices from various regulatory bodies, such as US Office of Foreign Asset Control (OFAC) and EU Sanctions notices. We also retain outside legal counsel and employ third party

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vendors such as MSCI to notify us of any changes or updates to sanctions. Sanctioned companies and countries are hard coded into restricted lists in our order management system. Any trades for companies that are identified as sanctioned are rejected.

## 2022 Outcome

As of 31 December 2022, the CGA team was actively monitoring 137 ESG/SRI rules across our various portfolios and there were zero violations of these rules in 2022.

## Systems

To support the IPC and our Research Analysts, we maintain subscriptions to a variety of resources. Please see the below table for a snapshot of the various resources we utilise:

Service Provider	Services Provided
MSCI	<ul style="list-style-type: none"> <li>• <b>ESG Ratings</b></li> <li>• <b>Business Involvement Screening</b></li> <li>• <b>Global Norms &amp; Controversies</b></li> <li>• <b>Sustainable Impact/Carbon Metrics</b></li> <li>• <b>Enhanced Climate-Related Metrics &amp; Reporting</b></li> </ul>
Morningstar	<ul style="list-style-type: none"> <li>• <b>Sustainability Ratings</b></li> <li>• <b>ESG Research</b></li> </ul>
Bloomberg	<ul style="list-style-type: none"> <li>• <b>Market research, data &amp; analytics</b></li> </ul>
ISS (Institutional Shareholder Services)	<ul style="list-style-type: none"> <li>• <b>Implement Proxy Voting Guidelines</b></li> <li>• <b>Ensure Proxy Votes are cast</b></li> <li>• <b>Pooled Engagement service (broadens scope of our corporate engagement programme by working with other investors to elevate ESG concerns to corporate management)</b></li> </ul>
FactSet	<ul style="list-style-type: none"> <li>• <b>Portfolio Analysis (performance, characteristics, risk, style)</b></li> <li>• <b>SDG Monitoring</b></li> </ul>

We use MSCI ESG Research data in the development of our proprietary ESG research and our Top-Down Engagement focus lists. These applications draw upon ESG data to highlight ESG risks and opportunities at the sector and individual company levels. We work with Institutional Shareholder Services Inc. (ISS) to implement our proxy voting guidelines and ensure our votes are cast. In addition, we use ISS's Collaborative Engagement Service to broaden the scope of our corporate engagement programme by working with other institutional investors to elevate ESG concerns to corporate management.

## Incentives

Our compensation plans are engineered to align client and employee success. Focusing on a team concept, we formally evaluate most employees annually. Increases in income are based on contribution to the team, as well as individual improvements and accomplishments. This includes, but is not limited to, successful implementation and execution of stewardship focused objectives.

## Assessment of Effectiveness

We believe our governance, resources and incentive structures have been highly effective in supporting growth of our stewardship capabilities while ensuring our client goals are met. Examples of this include consistent implementation of our investment process, creating a vertical within our Institutional Group that is dedicated to stewardship and responsible investing, adding 10 new ESG, SRI, or Impact-related strategies in 2022, continuing to maintain eco-label certifications, an increase in engagement activity over the previous year (encompassing both individual and collaborative engagements), and successful monitoring of portfolio specific guidelines.

We believe our largest area of opportunity lies in staying abreast of industry trends (such as the UK's Sustainability Disclosure Requirements (SDR) regime and the EU's Sustainable Finance Disclosure Regulation (SFDR)), further aligning our strategies to support our clients' stewardship objectives, and continuing to enhance our transparency. We believe structures like our Responsible Investments Committee have facilitated our success in this area, but we know there is constant room for improvement in the developing space of Responsible Investments. In the future, we plan to develop an RI Roadmap to increase transparency across the Fisher Group, and continuously invest in ESG training and tools across all entities.

We remain cognisant and committed to ensuring resources and priorities are focused on relevant trends, resources, and education opportunities.



## PRINCIPLE 3: PURPOSE AND GOVERNANCE

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

We monitor conflicts of interest in our stewardship activities as well as in our general business activities.

### Conflicts of Interest – Stewardship

We have a duty to ensure that any conflicts of interest are addressed in a way that puts our clients' interests first. Below we have outlined several of the ways we mitigate conflicts of interest:

- **100% focus on Asset Management.** Because we are not involved in other parts of the financial services industry, we are able to focus on our core responsibility to our clients.
- **FI is 100% Fisher-family and employee-owned.** Our ownership structure aligns our success with our clients' success; being privately owned means that the firm does not have to balance multiple shareholder interests.
- **We proactively avoid situations that can cause conflicts.** FI's and FIE's directors, employees and "affiliated persons" are not employed by, do not sit on the board of, and do not provide consulting or similar services to, an issuer of securities in which we have invested assets under management, or intend to invest assets under management. We also work to mitigate any potential conflicts of interest with respect to the management of client accounts. For example, we eliminated formal soft dollar arrangements with broker dealers as disclosed in a recent regulatory filing of FI's Form ADV, Part 2A, found here: <https://www.fisherinvestments.com/en-us/disclosures/form-crs-and-form-adv>.

Conflicts of interest are also addressed in our Engagement and Proxy Voting activities:

### **Engagement**

From time-to-time, a proposed company engagement may conflict with an institutional client's interests. Most commonly, a conflict can exist if we are conducting engagement with a company where we have an existing business relationship. In addition, it may not be prudent to initiate engagement when we are in the process of divesting our holdings. Less commonly, a stewardship engagement may be deferred due to a non-ESG engagement already initiated by a Research Analyst. To address such instances, our policy dictates that management review all new engagement requests to identify actual and potential conflicts of interest. If a conflict (or potential conflict) is found, and we believe engagement would not be in our client's best interests, we will not pursue the engagement.

### **Proxy Voting**

Our Proxy Voting Policy is disclosed in our Engagement Policy (described in Principle 9) and contains additional safeguards. We believe that in most instances, these guidelines will adequately address any conflicts of interest, including when we hold shares of a publicly traded company where we also have a business relationship.

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Generally, except in cases where an institutional client provides written instruction to indicate otherwise, we will vote (by proxy or otherwise) on all matters for which a shareholder vote is solicited by, or with respect to, issuers of securities beneficially held in institutional client accounts in such manner as we deem appropriate, in accordance with its written policies and procedures. These policies and procedures set forth guidelines for voting (or abstaining from voting) on many typical proxy proposals. FI regularly reviews these guidelines. In certain situations, the IPC might determine that it is in the client's best interests to vary from the guidelines, or that the proxy issue might require individual case-by-case consideration under the guidelines. Such instances are further discussed in Principle 12.

Where a proxy proposal raises a material conflict of interest between the interests of the Fisher Group and its clients, we will vote in accordance with the guidelines wherever FI does not have discretion to vary from the guidelines. Alternatively, we will obtain voting direction from Institutional Shareholder Services ("ISS"), an independent third-party proxy service provider, disclose the conflict of interest to the client and abstain from voting, or obtain client consent prior to voting the securities. Clients may obtain a copy of our proxy voting policies and procedures and/or information on how we have voted the client's securities by written request to FI. Proxy Voting Reports for the previous 12 months (rolling) are posted to our [website](#).

## **Conflicts of Interest – General Business**

As a fiduciary, we place the interests of our clients first. With respect to conflicts of interest, our Compliance Policies and Procedures Manual, and the embedded Code of Ethics Policy, defines the appropriate standards of professional conduct all employees are expected to follow as a condition of their employment by addressing topics including, but not limited to:

- Employee, proprietary and client discretionary trading;
- Outside business activities and investments;
- Political contributions; and
- Gifts and gratuities.

We actively seek to avoid situations involving potential conflicts of interest by closely monitoring our business practices, and reminding employees of their fiduciary responsibilities when they join and through annual compliance training.

We have strict procedures in place to help ensure that our fiduciary responsibility to our clients is maintained. Access employees may not engage either directly or indirectly in any personal securities transactions without prior written approval, with specific exceptions that are delineated in our Joint Code of Ethics and Personal Trading Policy. The Compliance Department carries out new hire and annual compliance training, which covers our policy prohibiting insider trading and personal trading policies.

## 2022 Outcome

The Fisher Group has systems and controls in place to ensure that employees are not allowed to invest personal assets in Institutional Group strategies (including ESG, SRI, and Impact strategies). This assists with negating the potential conflict of interest that may arise from trade allocation, ensuring that no account is favoured over another. The control is considered to be effective, as during 2022 there were no instances of employees investing or attempting to invest in Institutional Group strategies.

Our Compliance Programme is designed to comply with applicable rules and regulations, to help prevent violations of securities laws, to detect any violations should they occur, and to correct any violation as necessary. The Compliance Programme is implemented through a Compliance Manual and Supplements, procedures designed to implement such compliance policies, training to the business units, and review and oversight of our activities by the Compliance Department and senior management. We have adopted written policies and procedures designed to set standards for the Fisher Group and its employees. These policies are reasonably designed to detect and prevent any violations of regulatory requirements and our policies and procedures. Every manager is required to be responsible for and monitor those individuals and departments he or she supervises to help detect, prevent, and report any activities inconsistent with our procedures, policies, and high professional standards.

Should a potential fiduciary breach be detected, the situation is promptly escalated to the Law and Compliance Department and members of Senior Management for review and resolution, as applicable.



## PRINCIPLE 4: PURPOSE AND GOVERNANCE

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

### Market Wide and Systemic Risk Analysis

We devote significant resources to understanding relationships and opportunities across countries (where applicable), regions, and sectors/industries, monitoring for both market and systemic risks globally.

### Capital Markets Research

We believe our research structure allows us to capitalise on global macro trends and cross-country (where applicable) and sector/industry analysis, thereby increasing our chances of achieving excess return and controlling risk in a variety of market environments. We continuously monitor drivers to ascertain shifts and whether the market has discounted them yet.

Risk analysis of global capital markets is performed on an ongoing basis through periodic and ad hoc analysis, with regular reporting to FI's IPC. FI's IPC uses a myriad of indicators or "drivers" to determine sector and style allocations based on information provided by the Capital Markets Research Team. These drivers allow us to establish relative risk and return expectations for sectors and styles:

- **Economic drivers** such as monetary policy, yield curve and relative GDP growth analysis.
- **Political drivers** such as taxation, governmental stability and political turnover.
- **Sentiment drivers** primarily measuring consensus thinking to identify relative investment-category popularity. Sentiment driver interpretation is typically counter-intuitive (i.e., avoid the overly popular and seek the largely unpopular).

As a result of this research, we deliver events and research pieces including but not limited to; webinars, in-depth quarterly reviews, podcasts, and daily market commentary to both our clients and prospective clients. Our daily market commentary and podcasts are publicly available on our [website](#), along with additional research pieces. These actions are further detailed in our 2022 Outcomes table in the "Investor Education and Communication" section toward the end of Principle 4.

### Climate Risk

We consider both direct and transition risks and opportunities on the organisation and with respect to their financial impacts in portfolios. While the direct climate-related risks to the organisation are limited, FI does consider such risks throughout the investment process. Within portfolios, for example, we review the financial impact of climate-related legislation and shifting consumer and investor preferences on country (where applicable), sector/industry and security decisions, and the firm regularly engages companies in dialogue on climate-related risks and opportunities.

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Further, Research Analysts monitor responsible investments thematic opportunities and risks deemed material to investment returns or those supporting ESG portfolio objectives. For example:

- Environmental thematic opportunities include, but not limited to, those related to the global low carbon transition (e.g., energy efficiency, alternative energy, electrical vehicle trends, green building & sustainable water).
- Environmental thematic risks include those related to thermal coal power, resource extraction (e.g., mining labour strikes and resource nationalisation), and litigation tied to environmental impact.

FI assesses the investment risk of climate change in the security selection process when relevant. When deemed material, metrics used to analyse such risks may include carbon emissions, fossil fuel production, and fossil fuel use amongst others. Within ESG portfolios, carbon-related activities are more directly targeted by restricting various coal-fired utilities and mining companies involved in thermal coal extraction. FI explicitly targets a carbon footprint reduction relative to a benchmark in its primary ESG strategy offerings. We regularly communicate carbon footprint metrics and our views on climate risks and opportunities (both periodically, and upon request by clients).

After purchase, FI monitors companies within the ESG portfolios for compliance, ensuring securities held in the ESG portfolio continue to meet FI's (or a client's) ESG guidelines. Such guidelines and valuations support the diverse non-financial objectives mandated by our clients.

## 2022 Outcome

We produced custom ESG-related research that discussed:

- The Investment Implications of Proposed US Climate Disclosures
- The Implication of Electrification/Decarbonisation Trends on Global Metals Markets
- The Implication of Electrical Grid Reinforcement and Temperature Technology
- US Fed Bank Climate Stress Tests
- Russia and Ukraine Conflict

We also produced our semi-annual ESG Newsletter that included articles on our approach to corporate engagement on biodiversity topics and our approach to sourcing engagement dialogues and assessing engagement outcomes. Further, we produced our annual Impact Report and ESG Insights publication.

Climate risk is also a priority in our corporate engagements. In 2022, 57% of our corporate engagements were related to climate risks and opportunities. We recognise the importance of working together, and we collaborate with other institutional investors to engage companies when we believe doing so is likely to advance clients' interests, is consistent with our policies and procedures and is permissible under applicable laws and regulations. As described in Principle 10, we engage collaboratively with other institutional investors through the Climate Action 100+ engagement initiative and the CDP non-disclosure

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initiative. We view the latter as a means to increase the availability of standardised corporate performance data within the broader market, as many ESG data service providers incorporate CDP data into their own processes.

## **Risk Management**

Implementation of appropriate risk management practices can contribute to the reduction of the possibility of systemic risks in the financial sector. By recognising our responsibility to prevent failure in our own business, we are supporting the larger goal of promoting a well-functioning financial system. We are a financially strong, established organisation with significant assets under management – diversified by both investment strategies and client constituencies. Our deep Research bench and the Investment Policy Committee (IPC) offset 'key person risk.' As an independent, 100% Fisher-family-and employee-owned organisation focused on separate account asset management, our resources are entirely focused on investments. Being independently owned allows us to control all aspects of service delivery.

Please see below for a high-level overview of the group-level risks that we actively manage. A description of our risk management and due diligence procedures in relation to our Environmental, Social and Governance ("ESG") and Engagement Service Providers can be found in Principle 8.

- **Investment Risk:** Risk management is an integral part of our overall investment process, actively managing portfolio risk through procedural and mechanical controls, whilst being continuously cognisant of the relevant benchmark composition and related portfolio risks.

Risk management controls are applied in the analysis of prospective securities, to assess their correlation to the country (where applicable) and sector in order to maximise the possibility of leveraging top level themes, and to identify unintended risk concentrations in the security selection process. Controls are also implemented to verify there is no more than minimal country (where applicable), sector/industry and security dispersion in every account.

In addition to identifying and controlling investment risk, we have the objective of maintaining an independent organisation structured to help our clients accomplish their investment objectives.

- **Operational Risk:** An implemented Risk Management Framework supports the business in identification, evaluation, and management of risks from business operations. Ongoing risk assessment is supported by processes that enable the identification of new risks and the impacts of change, so that consistent and up to date reporting to senior management may be facilitated by the governance committee structure in place. In order that risk management processes support the achievement of regulatory compliance, appropriate conduct, and satisfactory client outcomes, a Policy Framework sets out the rules and guidelines for all employees and development of a risk culture is reinforced by ongoing training. A business continuity programme, incorporating disaster recovery, increases our ability to remain operationally resilient.



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- **Information Security & Cyber Risk:** The Information Security function implements and maintains specific controls to identify potential threats and prevent impacts to firm's infrastructure and data. Periodic risk assessments are undertaken to address risks and identified gaps outlined internally and by third-party external auditors. Incident response management has been implemented, providing information as to the effectiveness of controls, and is supported by regular, mandatory employee training. Fisher Group systems have been designed to identify cyber (IT) attacks and prevent the infiltration of malware, including viruses and Trojans, as well as direct attack from unauthorised access or disruption.
- **Information Technology:** Periodic Risk Assessment involves contributions from multiple business functions, to reflect strategic change initiatives, and opportunities and threats identified from an assessment of the internal and external environments. An Incident Management process provides system infrastructure performance data to underpin the risk assessment and operational resilience capability.
- **Data Privacy:** A global Data Privacy Programme has been implemented to ensure that business and data protection processes are designed accordingly and enable compliance with regulatory principles and expectations. To help ensure the security of client information, relevant Policies and procedures are in place, and these are supported by Transport Layer Security (TLS) encryption for email communication between the Fisher Group and its custodians preventing an unauthorised party from viewing the data, and mandatory password-protected, access to document transmission applications and, encrypted file attachments for emails to all other parties (clients, prospects, third-parties, etc.).

## Promoting a Well-Functioning Financial System

### Stewardship

From a stewardship perspective, our engagement activities and our participation in global responsible investment initiatives each play a role in promoting a well-functioning financial system. For example, corporate engagement is an important tool to ensure the companies we invest in are appropriately managing relevant financial and ESG risks at the corporate level. Holding each company to account for managing their own individual risks contributes cumulatively to reducing market-wide risks. FI's participation in and support of global responsible investment initiatives such as the PRI, the UN Global Compact, the Climate Action 100+, the CDP, and the Task Force on Climate related Financial Disclosures (TCFD) may have a similar effect.

#### 2022 Outcome

FI participated in the PRI-convened Sustainable Commodities Practitioners' Group, which concluded in 2022. In the group, asset owners and asset managers worked to build awareness and share current best practices in responding to commodity driven deforestation. Investors shared their practices and

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worked to align their engagement objectives, metrics and practices in collaboration with technical experts. Participation in the PRI's working group has helped us enhance our expertise on relevant metrics, indicators, and assessment frameworks on sustainable commodities and natural capital associated with our thematic engagements focused on biodiversity risks.

## **Investor Education and Communication**

We believe investor education and publicly sharing our market insights are important tools in a well-functioning financial system. This view is reflected in our Vision Statement (see Principle 1) which identifies unparalleled service and continuous education as two of the ways we seek to better the investment universe. Members of the IPC and Research Department have written 30 books, including 11 from our founder Ken Fisher. The IPC's commentary and market perspective are available through periodic media publications in several languages and through client seminars hosted throughout the year. In addition, FI's market commentary is publicly available on our [website](#).

In addition, we collaborate with our clients (a primary stakeholder) to create customised seminars, webinars, and/or written presentations tailored to their interests and topics of preference, including market and systemic risks. As an organisation, we are committed to educating our clients on the latest market events, and we encourage clients to use our research capabilities and leverage our resources as an extension of their own organisation.

We also create customised research pieces and educational materials for our clients. We provide in-depth quarterly reporting and global market commentary and outlooks to our clients. We share a vast library of investment training and global market research with our clients, and we are continually producing leading commentary and insights on investment management innovation.

Below you will find an overview of the ways in which we identified and responded to market-wide and systemic risks in 2022, and how we shared this research accordingly:

### 2022 Outcomes

Below are some of the market-wide risks and topical subjects that we identified and shared with our investor base in 2022 through our Quarterly Reviews:

- The Midterm Miracle is off and Running
- Recession Watch 2023
- The Strong Dollar
- Europe's Falling Russian Dependence
- What Did FTX Do with Clients' Money?
- Waiting for Capitulation... or Godot
- Gridlock's Impact
- The 1966 Parallel
- Accelerating Loan Growth Goes Unnoticed

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- Money Supply
- How Markets Deal with Regional Conflict
- The Ins and Outs of Oil and Inflation
- The State of Sentiment today
- Closer to a Post-COVID world

FI created a recurring report known as the "Regulatory Monitor" to monitor proposed and newly implemented regulations in order to better identify threats with potential surprise power. The Regulatory Monitor acts as a periodic review of proposed and newly implemented regulation/legislation in an effort to support the Research Group's ongoing effort to identify large and underappreciated threats with significant unintended consequences & surprise power (e.g., systematic risks). The Research team categorises and focuses on trends in regulatory action then monitors specific political, regulatory & legislative action within each category. The monitor's focus categories are chosen qualitatively and change over time. As of the end of 2022, the regulatory monitor's focus categories included global tech/anti-trust regulation, US-China relations, energy shortages & green energy.

The Capital Markets Conditions Monitor acts as a periodic review of measures related to market liquidity, access to credit and money supply to support the Research group's ongoing assessment of overall capital markets relative health/stresses. The monitor includes quantitative data related to measuring market function, access to credit and money supply. Examples of items monitored include, but are not limited to, bond & equity market liquidity, trading spreads, volatility metrics, credit spreads, aggregate debt to asset & interest coverage ratios, yield spreads, money supply, and yield spreads.

Throughout the year, Ken Fisher made TV appearances on various channels such as CNBC, BBC, Bloomberg, CNN, and Fox Business to share our latest thinking on global capital markets and current events:

- *Stocks to celebrate after U.S. midterms; Fed can't kneecap economy by doing this: Ken Fisher - Video - BNN*
- *Stocks that did best in declines, can't do best in bounce: Ken Fisher - Video - BNN*
- *Markets starting to price in 'reality of recession' amid selloff: Fisher Investments founder | Fox Business Video*
- *Ken Fisher: Bear market likely to end without capitulation | Fox Business Video*

Some of the most important decisions for top-down managers occur on the country and sector level. Top-down governance analysis can help isolate countries and sectors that are poised to underperform – pulled down by negative ESG characteristics. In 2020, we produced a piece using Russia as an example of this analysis and provided it to investors prior to the invasion of Ukraine in February 2022. We continued to provide coverage and market impacts of the war between Russia and Ukraine before and after events unfolded including the following:

- *MarketMinder - November 2021 - Our Perspective as Russia Saber-Rattles in Ukraine—Again*



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- MarketMinder – February 2022 – The Likely Market Implications of Putin's Latest Ukraine Gambit
- MarketMinder – February 2022 – The Direct and Downstream Impact of the Latest Sanctions on
- MarketMinder – April 2022 – Weighing Russia's Gas Halt to Poland and Bulgaria
- MarketMinder – June 2022 – The Latest on Russia and Europe's Energy Battle
- Russia, Inflation & the Energy Sector – June 2022 (Market Insights)

Throughout the year, we continued to grow our video series entitled "Macro Minutes." Whether our investors are interested in investment planning tools, or simply enjoy learning about the markets, these short videos are meant to provide topical education in a quick, easily digestible fashion. Throughout the reporting period, we produced seven Macro Minutes videos, some of which were focused on Responsible Investment (RI) topics such as "Challenges and Solutions for Net Zero/Paris-Aligned Investors."

Macro Minutes videos are available to all clients and prospective investors through our public website. This website is also host to FI's ESG Newsletters, topical White Papers, and RI-related Media Releases.

Throughout the year, we continued to expand our *Market Insights* podcast. Our *Market Insights* podcast provides our latest thinking on global capital markets and current events.

## Assessment of Effectiveness

As a training and knowledge-oriented organisation, our service philosophy begins with a commitment to transparency and responsiveness. We pride ourselves on our commitment to education and make special efforts to present our views on global markets regularly, especially in relation to market-wide and systemic risks. We believe that sharing our risk analysis and research globally, in conjunction with our organisation-level efforts to manage internal risk, contributes positively to a well-functioning financial system.

One potential area of opportunity in this space would be to share our research related to market-wide and systemic risks more directly with other industry stakeholders and peers, in addition to our investor base. As a privately held firm, we believe our primary role in promoting well-functioning financial markets is through educating our clients and potential future clients. However, we understand the merit in sharing our unique global analysis more broadly, as knowledge-sharing has the power to promote a healthier financial system.

Please refer to our examples of collaborative engagement in Principle 10 for more information on how we have engaged with other external stakeholders.

## PRINCIPLE 5: PURPOSE AND GOVERNANCE

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

Our policies (including those related to stewardship), are reviewed annually, and we use compliance monitoring and auditing to provide assurance that our processes are effective.

FI has a management structure designed to allow open lines of communication throughout. Our CEO is generally responsible for oversight of all key operating decisions, together with input from the firm's Executive Chairman. Senior Management is supported by numerous Senior Executive Vice Presidents (SEVPs), Executive Vice Presidents (EVPs), and other Vice Presidents (VPs). Each of these individuals is responsible and accountable for a material part of firm operations and the ultimate success of their respective departments. On a periodic basis, specialised committees provide oversight for specific areas by reviewing issues and evaluating policies and procedures. In relation to stewardship policies, this includes our internal Responsible Investments & Engagement vertical, ESG Specialists in our Portfolio Management Group, and our Responsible Investments Committee (where applicable).

### Compliance Monitoring

Our Compliance and Internal Audit Departments perform, no less than annually, both periodic and forensic testing of our written policies and procedures. This process is supervised by the respective heads of compliance for each Fisher Group entity, including FI's Global Chief Compliance Officer, who oversees FI's compliance programme and reports to FI's General Counsel, and FIE's Head of Compliance, who oversees FIE's compliance programme and reports to FI's Chief Compliance Officer. Members of the Law and Compliance Department communicate with members of FI's Investment Policy Committee (IPC) to help ensure we are fulfilling our fiduciary responsibilities to clients.

Our stewardship responsibilities and activities align with the following policies:

- [ESG Policy Statement](#): Describes our approach to ESG and how it is integrated into our investment process;
- [Engagement Policy](#): (includes Proxy Voting Policy): Describes our active ownership programme, including the issues we engage on, how we identify engagement opportunities, and our proxy voting policy;
- [Shareholder Rights Directive II Engagement Policy](#): Describes how we integrate engagement into our investment process;
- **Engagement Framework Policy**: Internal document used to guide internal engagement operations, including monitoring, pre-engagement conflicts of interest checks, escalation strategies and reporting requirements.

In 2022, we continued adherence to our policies to ensure our stewardship policies and procedures are fair, balanced, and understandable. Our published reports are reviewed by the Compliance Department prior to publication to ensure the information fairly and accurately describes our engagement activity.

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We continued to publish quarterly engagement and proxy voting disclosures to maintain our transparency.

## Verification and Assurance

Auditing is another tool we use to ensure adherence to our processes and fairness in our reporting.

### Proxy Voting Audit

We completed a proxy voting audit each quarter in 2022 to review our voting exercise rates as well as the vote overrides from our Investment Policy Committee. The results were presented to our Proxy Voting Committee for review. The Committee serves as the control point for all decisions relating to proxy voting. The Committee meets quarterly and as needed to review and analyse proxy voting records provided by our third-party proxy voting service, ISS, with respect to the adequacy and effectiveness of the Proxy Voting Policies and Procedures, and any proposed changes thereto are documented in the meeting minutes and kept in the Committee's records. Results of the proxy audit are discussed in Principle 12.

### Internal Assurance Example #1:

#### 2022 Outcome

Our Law and Compliance Department (Internal Audit Team) conducts annual audits of certain stewardship-related activities including our Proxy Voting Policy and Procedures, our Meeting with Issuers and External Parties Operating Procedures and our Guideline Exception Escalation Operating Procedures, and our annual PRI submission. In 2022, the Internal Audit Team started the process of auditing our most recent PRI submission, after our PRI assessment and scores were received in September 2022. The objective of this internal audit is to obtain verification that we accurately and fairly described our activities. We evaluated several options to verify the report, encompassing both internal teams and external vendors. Ultimately, we determined that using our independent, internal auditor provided a timely, cost-effective review that was consistent in quality to an external auditor. The audit was successfully completed in 2023 and no concerns were found with our most recent PRI submission.

### External Assurance Example #1:

#### 2022 Outcome

Our Institutional Group uses independent, outside professionals to semi-annually audit and test the suitability and design of our investment management controls and functions, including forensic testing of our Proxy Voting process/services. These audits are included in our System Organisational Control (SOC 1) Report, which is available to our institutional clients upon request.

## External Assurance Example #2:

### 2022 Outcome

To ensure our strategies meet our clients' expectations, we are actively pursuing eco-label certification for a select number of our funds/strategies. The application process includes examination by an external auditor to ensure a financial product meets the label's strict criteria.

We achieved the Austrian Österreichisches Umweltzeichen (Eco-Label UZ 49) certification for the Fisher Investments Institutional Emerging Markets Responsible Equity ex-Fossil Fuels Fund in 2020, and maintained that status throughout 2021 and 2022. In addition, we have successfully pursued and attained this eco-label for an additional fund in 2023 and we will happily report further on this outcome in our next report to the UK Stewardship Code.

We achieved the Belgium 'Towards Sustainability' label certification for the Fisher Investments Institutional US All Cap ESG Fund and the Fisher Investments Institutional Emerging Markets Responsible Equity ex-Fossil Fuels Fund in 2021 and maintained that status throughout 2022. Further, this eco-label adopted enhanced standards for their signatories in 2022 and both of our funds successfully met the new standards.

Our policies are written in consultation with many internal teams before being reviewed by management. Final approval and ongoing monitoring are conducted by our Law and Compliance Department.



## PRINCIPLE 6: INVESTMENT APPROACH

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

### Diverse Client Base, by Geography and Asset Class

As of 31 December 2022, FI and its subsidiaries, including FIE, managed over £143 billion. This includes over 126,000 private clients and institutional assets valued at over £34 billion. Within our Institutional Group, we managed over £12 billion in assets with ESG/SRI guidelines across all of our strategies.

Below you will find **geographic** breakdown of our assets under management:

Region	Firm AUM By Client Domicile (Millions)	Institutional AUM By Client Domicile (Millions)	Retail AUM By Client Domicile (Millions)
US	£111,010.74	£11,843.94	£99,166.80
Europe and UK	£21,234.77	£11,744.19	£9,490.57
Middle East	£3,927.68	£3,926.98	£0.70
Asia	£5,295.99	£5,290.90	£5.09
Canada	£2,003.25	£1,074.76	£928.49
Australia	£287.16	£212.08	£75.08
Latin America	£18.75	£3.27	£15.48
Other*	£75.88	£74.93	£0.95
<b>TOTAL</b>	<b>£143,854.21</b>	<b>£34,171.04</b>	<b>£109,683.17</b>

\* Other includes Bermuda, Bahamas, Channel Islands, Mauritius, and Zambia. Retail AUM is inclusive of Fisher Investments 401(k) Solutions Group.

Of note, institutional AUM, as referenced in this material, includes separately managed accounts and commingled vehicle assets for Institutional investors, select 401(k) Solutions assets and private client accounts when those assets are included in Institutional composites.

Below you will find the **asset class** breakdown of our assets under management. For further information on our investment approach and stewardship practices in relation to both Listed Equity and Fixed Income asset classes, please see Principle 7.

Asset Class	Total AUM (Millions)	US (Millions)	Europe & UK (Millions)	Middle East & Asia (Millions)	Other (Millions)
Equity	£131,722.46	£100,016.22	£20,188.07	£9,223.49	£2,294.68
Fixed	£10,735.64	£9,787.58	£874.06	£0.12	£73.87
Cash	£1,396.11	£1,206.94	£172.64	£0.05	£16.48
<b>TOTAL</b>	<b>£143,854.21</b>	<b>£111,010.74</b>	<b>£21,234.77</b>	<b>£9,223.66</b>	<b>£2,385.04</b>

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*Other includes Canada, Australia, Latin America, Bermuda, Bahamas, Channel Islands, Mauritius, and Zambia.*

*All assets as of 31/12/2022 are preliminary and subject to final reconciliation of accounts. Pound Sterling asset values were calculated by using the USD-GBP exchange rate as of 31/12/2022. Source: FactSet. Includes all assets managed by Fisher Investments (FI) and sub-managed for its wholly-owned subsidiaries as of 31/12/2022. FI and its subsidiaries consist of four business units – Fisher Investments Institutional Group, Fisher Investments US Private Client Group, Fisher Investments Private Client Group International, and Fisher Investments 401(k) Solutions Group.*

## Understanding the Investment Time Horizon

Our investment time horizon is directly linked to the time horizon in which FI evaluate risks. Generally, we seek to invest in companies that we expect to perform well for at least the current portion of the market cycle. This can be anywhere from several months to several years. Because equity markets discount future risks rather than waiting for actual events to occur, we also consider future risks beyond our time horizon. The degree of anticipation required depends on the risk in question. Our Relationship Managers work extensively with our clients to ensure our investment time horizon is appropriate for their needs.

Through our top-down investment approach, we take a high conviction, low turnover view to the investment time horizon. We expect portfolio turnover to average approximately 25% per year over a full market cycle, with higher turnover in periods when we make major strategic shifts. Short-term market conditions are unlikely to change our fundamental outlook. If medium to longer-term changes in market conditions are anticipated, such as a prolonged bear market, then periods of higher turnover would occur, reflecting fundamentally driven repositioning of portfolios. This style of portfolio reconfiguration is indicative of our aim to maintain successful investment strategies in the long-term.

## Client Views, Input, and Communication

Our straightforward client service approach allows clients to determine their preferred level of service. This is done by directly, and proactively engaging, with new clients to understand their requirements and preferences at the onset of a relationship, and by continually gauging our level of service during in regular meetings thereafter. In general, our client service communications include proactively scheduling quarterly calls/in-person meetings, providing portfolio reviews, detailing portfolio posture and capital markets outlook, communicating with investment consultants, and coordinating resources on the client's behalf based on individual needs. Our client communications include a suite of customised portfolio reporting, including a variety ESG reporting, provided at a cadence determined by the client. In addition to monthly, quarterly and annual reporting, we regularly provide custom and ad-hoc reports when requested by clients, and where we believe reporting may enhance the client's understanding of how we are managing their assets. Portfolio reporting generally includes information such as performance and attribution, portfolio weights, transaction details, valuations and engagement reports. Please find snapshots of our engagement reporting below:

## ENGAGEMENT HIGHLIGHTS

### ENVIRONMENTAL, SOCIAL & GOVERNANCE ENGAGEMENT

	<b>SECTOR:</b> CONSUMER DISCRETIONARY
	<b>TOPIC:</b> GHG EMISSIONS SUSTAINABLE SOURCING PLASTICS & PACKAGING TRAINING & DEVELOPMENT EXECUTIVE COMPENSATION
	<b>STATUS:</b> ONGOING

#### OBJECTIVE

Initiate engagement dialogue to discuss the company's overall sustainability strategy, including its climate pledge, sustainable sourcing, employee well-being and executive compensation.

#### SUMMARY

FI engaged with a Chinese multinational company to understand its climate strategy and learn about programs related to packaging and plastics use, employee well-being and corporate governance.

**Climate Change Strategy:** In 2021, the company pledged to achieve operational carbon neutrality by 2030 and aims to achieve 1.5 gigatons of decarbonisation across its business ecosystem. The company is utilising electrification and efficiency gains in each business unit, including electrifying both last-mile and long-haul vehicles, installing solar panels and focusing on recycling of packaging and plastics. The company does not have the hub-and-spoke distribution and logistics footprint of Western e-commerce companies. Rather, its platform has a higher proportion of direct sales by third-party sellers that generally provide on-demand and local delivery. In this model, most products are not repacked and a recent program allows customers to hand over any packaging for recycling upon delivery.

**Sustainable Sourcing:** FI inquired if the company's "Code of Conduct" on labour standards. Code of Conduct includes Tier 2 or Tier 3 suppliers. At this time, its Tier-1 supplier base of more than 10,000 firms have to adhere to its code of conduct, including sustainability expectations. The lower tier suppliers need to meet code expectations of Tier 1 suppliers, but the company does not conduct compliance audits.

**Human Capital:** FI inquired how the company managed the well-being of its critical employee base. The company's overall employee management program begins with 50 hours of new employee onboarding, including team-building activities. Employees are encouraged to share their ideas and thoughts openly, including the use of internal communications systems that foster free dialogue. We recommended disclosure of surveys or other data to highlight the efficacy of the employee well-being programs.

**Executive Compensation:** We inquired if ESG targets are incorporated in executive compensation metrics. ESG is relatively new in China, and while the company has dedicated more resources and created an internal sustainability committee, it is not in a position to incorporate ESG metrics in the compensation program at this time.

#### OUTCOME

Ongoing engagement. The company has embarked on an ambitious climate change strategy including a 2030 GHG emissions reduction target. Its Scope 3 emissions reductions rely on decarbonisation of its marketplace and ecosystem partners, which may present challenges. The company's programs on human capital and well-being seem standard and would benefit from additional disclosure of programs and performance. FI will continue to monitor the company's progress and seek another dialogue opportunity in the future.

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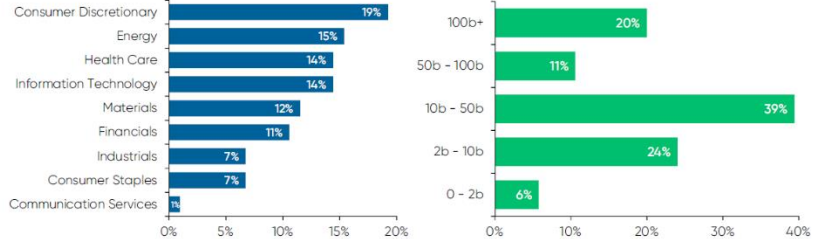
## ENGAGEMENT DISTRIBUTION

We engage across a range of geographies and sectors, as shown below.

### Domicile of Engaged Companies, Trailing 1 Year as of Q4 2022



### Engaged Companies by Sector & Market Cap (USD billions), Trailing 1 Year as of Q4 2022



Source: FI data using Factset domicile, sector, and market capitalization designations. Percentages above may not add up to 100% due to rounding. Data indicated above are based on engagement meetings for all institutional clients of Fisher Investments and its subsidiaries as of Q4 2022.

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We encourage our institutional clients to consider our resources as an extension of their own organisation, and this includes assisting with their stewardship objectives. Our actions include using client co-engagement, which allows us to conduct engagement alongside our clients or invite clients to request that we engage a company on their behalf. This collaboration also allows our clients to experience first-hand how our engagements can lead to outcomes. We facilitate the engagement by conducting all the background research, handling meeting logistics and leading the dialogue. Clients select the company(ies) to engage and choose the level of participation that suits their needs – either as a Signatory or an Active Participant. In instances where our clients vote their own proxies but have questions about a particular vote, we evaluate the item and provide a detailed assessment for their consideration.

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## Client Feedback

Below are recent examples from 2022 encompassing how we have listened to our client's views and taken action accordingly. Please note, we do not utilise external managers in any capacity.

**Client Feedback Example #1:** We seek to provide clear and constant communication channels to our clients. Through these open lines of communication, we aim to learn about client views, especially in the continuously evolving space of responsible investing. Through these ongoing conversations, we have the opportunity to take account of our clients' current (or future) wants and needs and immediately take action.

### 2022 Outcome

In 2021 we learned that a client had signed up to the Net Zero Asset Owner Alliance, an alliance of institutional investors committed to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050. In Q1 2022, the Relationship Managers, alongside the ESG Specialist on the Investment Policy Committee, met with the client to present a newly developed strategy that would fit the client's new stewardship and investment policies – an Emerging Markets Paris Aligned / Net Zero strategy. This led to an on-site meeting with the client in Q3 2022 where they confirmed they were switching their mandate to FI's new strategy effective the 1<sup>st</sup> of October. This is FI's first Paris Aligned / Net Zero strategy and mandate.

**Client Feedback Example #2:** In 2022, we expanded our client co-engagement programme as a way to continuously serve our clients who have their own Engagement goals or interests.

### 2022 Outcome

Our first client co-engagement resulted in a successful outcome. A New Zealand client signed onto an FI engagement asking a Japanese robotics company to set greenhouse gas reduction targets. After two meetings, the company announced comprehensive targets that align with "Net Zero" carbon emissions by 2050 (the objective of the Paris Agreement, which Japan supports). The client was pleased and shared the engagement story with their own constituents.

**Client Feedback Example #3:** One of the firm's institutional clients provided feedback that our stewardship materials had not kept pace with our increasing capabilities and requested that we refresh our material.

### 2022 Outcome

We updated existing stewardship content and produced new material in a consolidated presentation that showcases metrics, processes and examples related to proxy voting, engagement and integration into our investment process.



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**Client Feedback Example #4:** In the rapidly growing responsible investing and stewardship spaces, we believe it is incredibly important to provide opportunities for education not only to our immediate client stakeholders, but to a larger investment base as well. We aim to provide these educational opportunities across many different mediums, such as virtual webinars, forums, in-person meetings, conferences, etc.

## 2022 Outcomes

One of FI's Portfolio Managers hosted an industry-wide ESG webinar, sharing commentary and research on the subject of "Setting Worthwhile, Measurable & Achievable ESG Targets."

We provided a virtual client learning "ESG Forum" for an institutional client's employees and consultant, where the challenges and opportunities of ESG investing was discussed with an open Q&A session.

We provided an extended half-day meeting with a client's two Managing Directors for Equities at one of our offices. The meeting was focused largely on key Responsible Investing and Stewardship topics such as trends in ESG & the EU's SFDR, a detailed overview of ESG at FI, the Responsible Investments Committee, ESG philosophy, history and development of ESG capabilities, ESG integration in FI's investment process, and Engagement/Active Ownership.

**Client Feedback Example #5:** Responsible investment is growing rapidly, and some institutional clients have expressed concern about the overall lack of ESG verification standards. To address their feedback and to ensure our strategies meet our clients' expectations, we began pursuing eco-label certifications for a select number of our strategies. The application process includes examination by an external auditor to ensure the strategy meets an eco-label's strict criteria. In order to remain certified, we must pass periodic audits throughout the year, and complete an annual re-certification audit.

## 2022 Outcome

Two of FI's funds achieved the Belgium 'Towards Sustainability' label certification originally in July 2021, and remained certified in 2022: the Fisher Investments Institutional US All Cap ESG Fund and the Fisher Investments Institutional Emerging Markets Responsible Equity ex-Fossil Fuels Fund. In 2022, this eco-label adopted enhanced standards for their signatories in 2022 and both of our funds successfully met the new standards during the annual re-certification audit.

Further, we have maintained existing certifications in 2022, such as the Austrian Österreichisches Umweltzeichen (Eco-Label UZ 49).

In addition to regular, proactive communication with clients, we conduct structured client surveys to ask about their experience and how we might serve them better. Clients surveyed consistently indicate our service exceeds their expectations due to our frequency of contact, research provided, and service minded relationship managers.

## Stewardship Communications

Client feedback is an integral part of our business practices; it informs our stewardship activities and helps ensure that our activities align with our clients' priorities. We conduct customised meetings and/or provide written presentations, which are tailored to a client's interests and topics of preference. Further, we provide a range of standard and custom ESG reports to our clients in order to communicate progress of managing assets in alignment with their stewardship goals.

Below are examples of the types of reports we provide, frequency, and information included in the reports:

- **Quarterly Engagement Reports** featuring engagement metrics and case studies. Clients are able to see the companies engaged, a summary of the discussion, and any milestones achieved.
- **Quarterly Proxy Voting Reports** that disclose our voting activity by geography, by issue and by percentage of votes against management.
- **Custom Reports:** In addition to customised engagement and proxy voting reports, we provide ESG Score Reports, Carbon Footprint Reports, Impact Reporting and ESG Attribution Analysis versus the benchmark.
- **Quarterly Review** featuring in-depth global market outlook commentary.

Based on client need, we are able to provide the aforementioned reporting on the frequency best suited to our clients' requirements (e.g., monthly, semi-annually, annually, etc.).

## PRINCIPLE 7: INVESTMENT APPROACH

*Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.*

Since the inception of FI's first investment strategies in the 1990's, FI has qualitatively reviewed non-financial ESG factors alongside financial data on companies. Such considerations are an important element in contributing toward investment returns and an effective risk-mitigation technique. As we have grown, financially material ESG factor integration has taken an increasingly prominent role in FI's fundamental investment analysis from both a bottom-up and top-down perspective. FI takes a client-centric approach to Responsible Investments (RI) and is dedicated to continuously improving our responsible investment capabilities and offerings to meet and exceed ESG clients' expectations.

Specifically, within ESG portfolios, we believe ESG investors are best served by a multi-faceted approach to ESG integration. Consistent with our overall investment process, we believe the most robust ESG portfolios result from considering both top-down and bottom-up Sustainability and ESG factors, establishing minimum ESG standards for the investment universe, setting portfolio targets for items such as carbon reduction or ESG scores, voting proxies consistent with our ESG clients' goals, and engaging with companies in areas in line with our clients' ESG priorities.

Our research efforts are also aligned with our clients' ESG goals. ESG factors are among the many drivers considered by FI's Capital Markets Analysts (responsible for top-down research), Securities Analysts (bottom-up research), Capital Markets Innovation Analysts (statistical research), Portfolio Engineers (strategy oversight), and Investment Policy Committee. Further, where appropriate, our responsible investment activities are integrated into several of our teams, including the Responsible Investments and Investor Responsibility and Engagement teams, and the Client Guidelines and Assurance team.

### Top-Down ESG Investment Process

Sustainability Risks and financially material ESG factors are among the many drivers considered by FI's Capital Markets Analysts and FI's Investment Policy Committee (IPC) when developing country (where applicable), sector and thematic preferences. Environmental regulation, social policy, economic and market reforms, labour, and human rights are among ESG factors considered, as relevant, when determining country (where applicable) and sector/ industry allocations and shaping an initial prospect list of portfolio positions.

FI's Capital Markets Analysts monitor how ESG factors may affect high-level portfolio themes when relevant. For example, FI may monitor key social policies driving wealth creation and economic growth, including, but not limited to infrastructure investment, tax policy, free trade, property, human and labour rights, and government reform. Political factors affecting these social policies are integral to the top-down analysis, allowing us to be cognisant of the regulatory risk surrounding the ESG environment. Further, our Research Analysts monitor responsible investments thematic opportunities and risks deemed material to returns. Environmental thematic opportunities include, but are not limited to, those related to the global low carbon transition (e.g., energy efficiency, alternative energy, electrical vehicle trends,

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green building and sustainable water). Environmental thematic risks include those related to thermal coal power, resource extraction (e.g., labour strikes and resource nationalisation) and litigation tied to environmental impact. Similarly, social thematic opportunities are considered, including education, shifting consumer preferences (e.g., healthy eating, e-commerce) and poverty trends (e.g., basic needs, infrastructure development).

The IPC, with the assistance of our Securities Analysts, Capital Markets Analysts, and Fixed Income Analysts, determines the materiality of the ESG considerations based on the exposure among publicly-traded companies in these categories. Higher materiality could imply larger ESG-related risks or opportunities which may influence country (where applicable) and sector/industry weight preferences, as well as individual security selection.

## Bottom-Up ESG Integration

Securities Analysts perform fundamental research on prospective investments to identify securities with strategic attributes consistent with the firm's top-down views, and competitive advantages relative to their defined peer group. The fundamental research process involves reviewing and evaluating a comprehensive set of qualitative and quantitative data, including financially material ESG factors, prior to purchasing a security. Factors considered in portfolios when relevant include, but are not limited to shareholder concentration, environmental opportunities and liabilities, and human and labour rights controversies. Generally, FI would choose not to invest in companies when, in its opinion, security level issues:

- Violate a client's mandated ESG policy, or
- Present an inordinate risk to a company's operational or financial performance, or
- Appear to present undue headline risk to share price performance.

Securities Analysts monitor existing holdings as part of the ongoing research process and elevate material ESG-related risks or opportunities at the company level. Each Capital Markets and Securities Analyst has access to a suite of tools from MSCI ESG Research used to assist in identifying opportunities, risks and controversies at the company level. Additionally, Analysts utilise various resources from MSCI ESG Research, Sustainalytics, ISS, Bloomberg, and FactSet to monitor holdings and comply with applicable ESG guidelines.

A material contribution of our relative performance derives from country (where applicable), sector/industry, style and thematic decisions. As such, we do not expect client directed security-level ESG restrictions or preferences to materially impact expected risk or return characteristics of the strategies, relative to the benchmark over a market cycle. We believe our ESG-related research capabilities can help enhance portfolio relative performance, particularly by reducing exposure to countries, industries, and securities that may underperform as a result of their negative ESG risks.



## **Integration across Geographies, Asset Classes, and Funds**

Our integration of ESG considerations in the investment process is overseen by the IPC, who collaborate closely with our Portfolio Engineers to ensure themes and considerations are best reflected in each strategy. Integration is generally consistently applied across geographies, asset classes, and financial products (i.e., funds, separate accounts).

### **Geographic**

In the application of ESG integration, when geographic differences occur, they are driven primarily by differences in local, regional or country (where applicable) business norms/regulations and by the observation that certain ESG risks may be more material in some geographies. For example, a one-size-fits-all approach may not be either appropriate or possible given the dispersion in non-financial data reporting practices between Emerging and Developed markets companies.

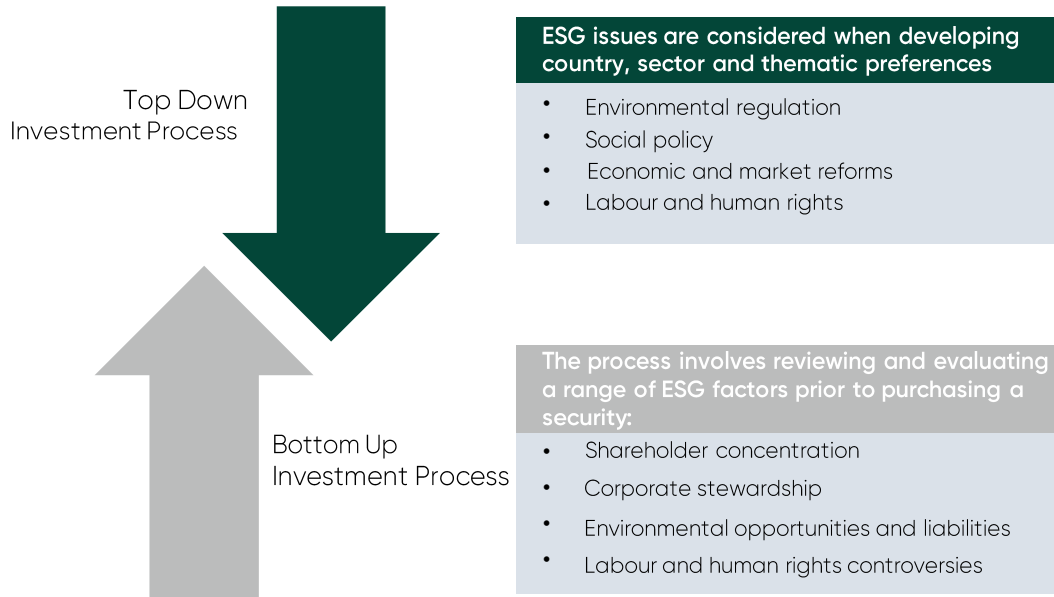
### **Asset Classes (e.g., Fixed Income)**

From an asset class perspective, the detailed description of our process above is primarily relevant to our management of listed equities (which accounts for the vast majority of assets under management at FI). ESG integration also occurs during our fixed income investment process, however the majority of our fixed income assets are managed in pooled vehicles such as ETFs. FI selects fixed income investments (primarily ETFs) to be included that are consistent with FI's market views about country, sector, industry, duration, yield curve, and credit quality positioning and are most likely to generate the highest expected returns and to control risk relative to the Benchmark. As part of the initial and on-going due diligence process, when considering investments, FI focuses on information including but not limited to, a fixed income ETF's benchmark, its underlying holdings and the degree to which the characteristics of the investment are aligned with FI's market views. Weights to fixed income ETFs in individual portfolios may also be influenced by the assessment of financially material ESG risks and opportunities as derived from the research group's assessment more broadly. Over time, we expect our business to evolve towards management of fixed income strategies with an ESG focus that use individual securities. In such strategies we seek ways to integrate ESG considerations in a manner more consistent with our ESG integration in listed equity strategies.

### **Financial Products (i.e., Funds, Separate Accounts)**

Within the financial products that we offer, while the integration of financially material ESG considerations is consistent, we offer many different responsible investment strategies with varying non-financial sustainability characteristics (i.e., differing screens, sustainability objectives, and carbon reduction objectives) versus others. The varied interests of our clients, benchmark preferences, and client-provided responsible investment policies primarily drive these differences in our financial products.

## ESG Application



## ESG Minimum Standards

For separate accounts, within our ESG strategies, we are able to refine prospective security lists further by applying ESG minimum standards (mechanical ESG screens) to the list of prospective securities, using clients' custom restrictions lists, MSCI ESG Research, and other data sources. Below is a sample of mechanical screens that can be incorporated. Ultimately, we work closely with each client to establish a bespoke restriction list aligned with their preferences.

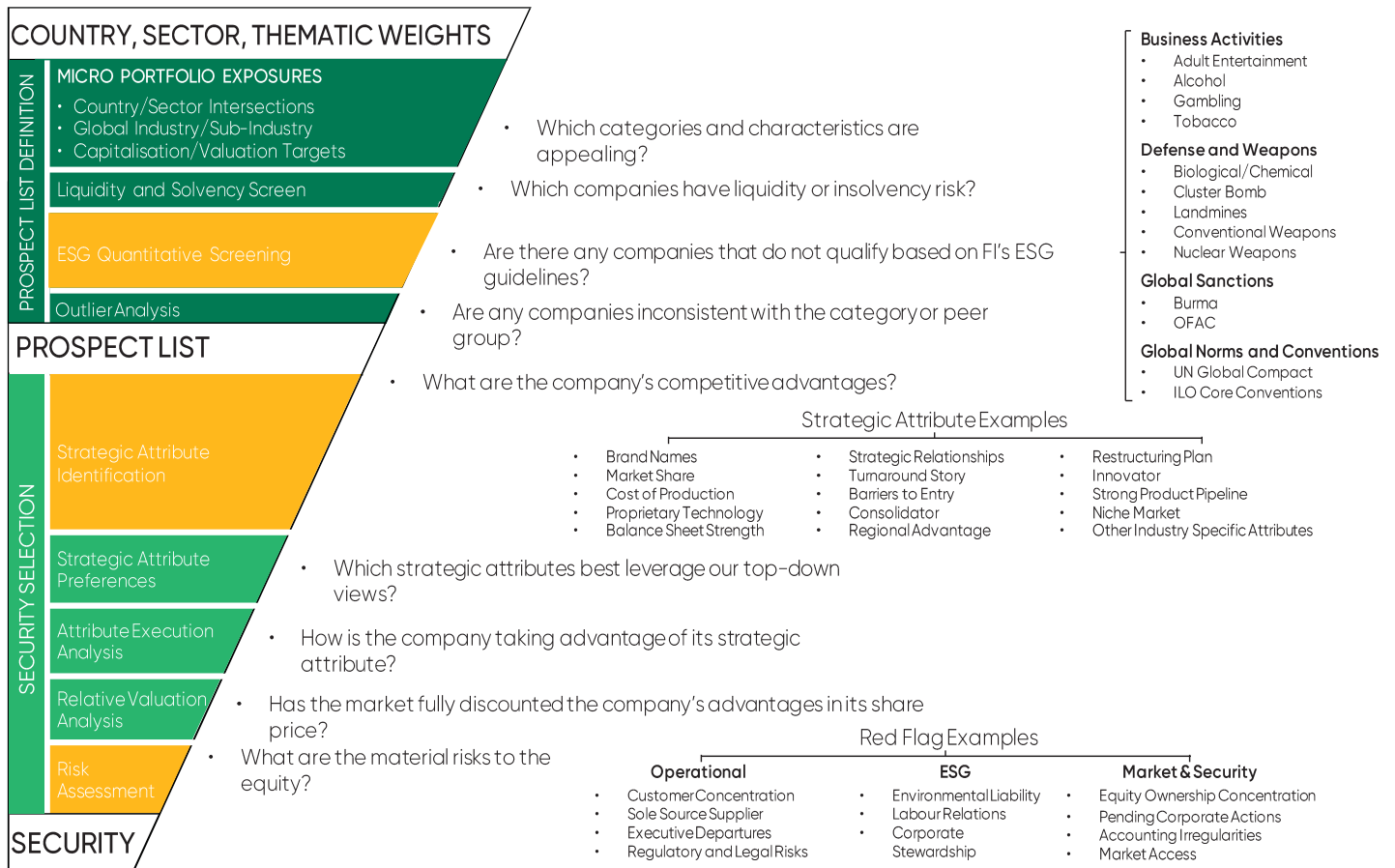
## ESG Capabilities

SAMPLING OF AVAILABLE MECHANICAL SCREENS			
DEFENSE AND WEAPONS	BUSINESS ACTIVITIES	GLOBAL SANCTIONS	GLOBAL NORMS AND CONVENTIONS
<ul style="list-style-type: none"> <li>• Biological/chemical</li> <li>• Conventional</li> <li>• Depleted uranium weapons production</li> <li>• Nuclear</li> <li>• Civilian firearms</li> <li>• Cluster munitions (any ties)</li> <li>• Landmines (any ties)</li> </ul>	<ul style="list-style-type: none"> <li>• Adult entertainment</li> <li>• Alcohol/gambling/tobacco</li> <li>• Child labour controversy</li> <li>• Genetic engineering</li> <li>• Animal welfare</li> <li>• Thermal coal extraction &amp; power generation</li> </ul>	<ul style="list-style-type: none"> <li>• US Office of Foreign Asset Control (OFAC)</li> <li>• EU sanctioned entities</li> <li>• Canada's Special Economic Measures Act (SEMA)</li> <li>• Australian Department of Foreign Affairs and Trade (DFAT)</li> </ul>	<ul style="list-style-type: none"> <li>• UN Global Compact</li> <li>• ILO core conventions</li> <li>• ESG Controversies</li> <li>• The Norwegian Global Pension Fund restriction list</li> </ul>

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The following graphic displays our prospect list definition and security selection progression (including country level integrated analysis):

## Prospect List Definition and Security Selection



Based on this analysis, the IPC selects securities. The IPC applies risk management controls to help ensure securities selected appropriately correlate to their respective countries (where applicable) and sectors/industries to increase the possibility of benefitting from our established top-down themes. Further, risk management controls identify unintended risk concentrations in the security selection process, and performance attribution is regularly monitored to confirm alpha is derived from intended sources.

## Service Provider Instruction

Our Client Guidelines and Assurance team (CGA) is responsible for ensuring that our ESG data providers such as MSCI ESG Research have received clear instruction and criteria necessary for supporting ESG-related screens. More generally CGA is responsible for the daily monitoring of any holdings violating a

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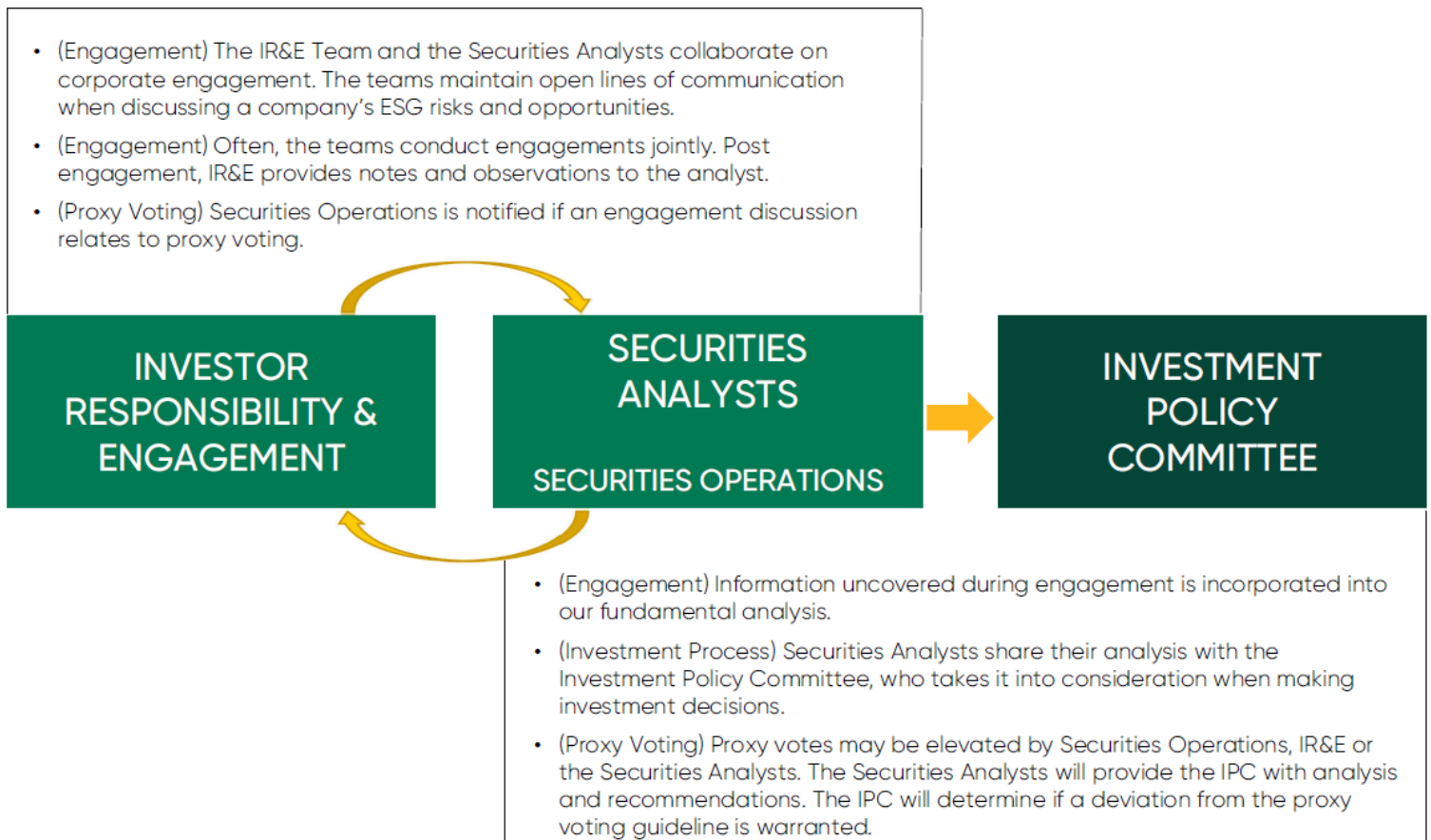
client's (or FI's own) restrictions before and after purchase of the position, such as revenue generation in specific industries (gambling, weapons, alcohol, tobacco, etc.), utilising various resources from MSCI ESG Research and Charles River Investment Management Solution (CRIMS). Any violations or potential violations are elevated to the IPC for review. Please see Principle 8 for more information on service provider and ESG data monitoring.

## ESG Stewardship & Integration Examples

We believe ESG investors are best served by a multi-faceted approach to ESG integration. Consistent with our overall investment process, we believe the most robust ESG portfolios result from considering both top-down and bottom-up Sustainability and ESG factors, establishing minimum ESG standards for the investment universe, setting portfolio targets for items such as carbon reduction or ESG scores, voting proxies consistent with our ESG clients' goals, and engaging with companies in areas in line with our clients' ESG priorities. Our research efforts are also aligned with our clients' ESG goals.

### Stewardship Integration in FI's Investment Process

*Stewardship enhances our ESG Integration process.*





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Please find below examples of how the Fisher Group's stewardship and ESG analysis influenced our decision-making process, along with their respective outcomes:

## ESG Stewardship Integration Example #1

### 2022 Outcome

FI engaged an American technology company to provide feedback on its executive compensation plan following the 2022 Annual General Meeting. The management-sponsored Advisory Vote on Executive Compensation received less than 65% support from shareholders due to concerns about the magnitude and structure of the CEO equity grants. In addition, investors expressed concern about the magnitude of NEO (Named Executive Officer) pay, which is equivalent to the CEO pay at some of the company's competitors. FI did not support the company's proposal due to these concerns, which we explained to the company. In early 2023, the company CEO and the board's Compensation Committee announced major changes to the programme. The 2023 CEO compensation will be reduced by 40% and there will be no ad-hoc CEO equity grants although it is not revising the NEO pay programmes.

## ESG Analysis Integration Example #1

### 2022 Outcome

In 2022, FI purchased a US-based leading HVAC equipment maker to better position portfolios for a market rebound by increasing exposure to stocks we believe have a high probability of outperforming in the early stages of a bull market. Despite a decline in residential demand and supply chain disruptions, the company has exposure to commercial construction and a backlog of commercial and refrigeration orders. Along with its strong pricing power, well-known HVAC brands, relentless focus on their core business model and increased production with a new factory, the company should benefit from high non-residential activity, strong HVAC adoption and a drive for sustainable cooling solutions. The company improved targets to support their strong emission management relative to peers. These efforts include its broad energy consumption reduction efforts, its renewable energy sourcing, its adoption of lower GWP (global warming potential) refrigerants, and its aims to reduce Scope 3 GHG emissions by 30% by 2034.

## ESG Analysis Integration Example #2

### 2022 Outcome

In 2022, FI sold Chinese Internet names out of many managed portfolios over persistent concerns about US-China relations, regulatory pressure, namely the HFCAA, and economic uncertainty which could potentially continue a sentiment headwind that may inhibit these Chinese firms from participating in the global market rally we anticipate. The HFCAA is a 2020 law requiring US-listed foreign companies to allow the US Public Company Accounting Oversight Board to inspect the audit process used in their financial filings on a limited basis. With resolution difficult to predict and potential delisting timelines accelerated, the HFCAA likely would remain a headwind to Chinese equity sentiment.

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## ESG Analysis Integration Example #3

### 2022 Outcome

In 2022, FI purchased a US-based water management solutions provider, to better position portfolios for a market rebound by increasing exposure to stocks we believe have been unduly punished in the downturn and have a high probability of outperforming as the market recovers. The company provides exposure to value characteristics, while offering higher quality characteristics such as operating margin and leverage compared to industry peers. The company is well-positioned to benefit from reaccelerating economic growth and strength across its end-markets including construction and durable infrastructure systems for both public and private water utilities within utilities. The company has favorable impact attributes given its products resolve water supply challenges and reduce energy consumption allowing the company to capitalise on the growing demand for sustainable water solutions and making them an industry leader among their peers. The company continues to develop innovative water and wastewater treatment products including smart-metering technology as well as UV and Ozone products to treat wastewater to provide reusable water for both potable and non-potable purposes, supporting the 2025 goal of treating 13 billion cubic meters of water for reuse.

## PRINCIPLE 8: INVESTMENT APPROACH

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

### Overall Service Provider Monitoring

Company management, with the assistance of the Law and Compliance Department, oversee relationships with critical third parties. All vendors, including our stewardship-related service providers – i.e., those providing proxy-related services and ESG data – are reviewed to determine if they should be categorised as a Critical Third-party Service Provider (TPSP). All TPSPs undergo a thorough review prior to executing or renewing any contract. This includes an assessment of recovery procedures to ensure that a disruption to critical third-party operations does not impact our ability to perform critical business processes. Critical TPSPs provide extensive information during the formal review process. TPSPs are required to inform us of any material changes the impact the third party's ability to meet its contract terms.

We also maintain a Vendor Oversight Committee (VOC) responsible for deciding 1) which vendors require additional oversight and 2) how we fulfil our obligation to oversee vendors. Each business unit completes and maintains a Vendor Assessment Form for its critical vendors. The Form identifies the control issues associated with each critical vendor. Relevant controls assessed include, but are not limited to access to our data, access to restricted, confidential or highly confidential information and other factors. The VOC reviews these assessments and works with the business unit to determine a due diligence plan for each Critical Vendor.

### Stewardship Service Provider Monitoring

#### Proxy Voting Service Providers

Our Proxy Voting Committee oversees all aspects of Proxy Voting and serves as the control point for all decisions relating to Proxy Voting. The members of the Proxy Voting Committee include a member of the IPC, the Securities Operations Team Leader, the Securities Research Team Leader, the Executive Vice President (EVP) of Portfolio Management, the Lieutenant Vice President (LVP) of Portfolio Management, and the Group Vice President (GVP) of Investment Operations. The Global Chief Compliance Officer (GCCO) is a non-voting member.

The Committee meets quarterly and as needed to review and analyse proxy voting records provided by our third-party proxy voting service, ISS, with respect to the adequacy and effectiveness of our Proxy Voting Policies and Procedures. Any subsequent proposed changes are documented in the meeting minutes and kept in the Committee's records.

The Committee conducts an annual due diligence analysis on ISS, which includes a review of ISS' SSAE-16 audit report, and an annual meeting with ISS to review any pertinent procedural updates or changes to their proxy voting guidelines. Furthermore, Committee members perform an annual review of the proxy

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voting recommendations of select strategies to ensure ISS recommendations are in line with our overall voting guidelines.

## 2022 Outcome

FI conducts an annual review of ISS. For the reporting period 2022, the annual review will be completed in Q3 of 2023. In 2021, we also participated in the annual survey for ISS Consultation and provided feedback on proposed changes to the 2022 proxy guidelines.

### **Engagement Service Provider**

FI contracts with ISS ESG's Collaborative Engagement Service (ISS CE) to increase the IR&E team's capacity to conduct norms-based engagements, such as those related to alleged violations of the UN Global Compact. We receive quarterly progress reports from ISS ESG, which we use as a tool to assess the vendor's effectiveness.

## 2022 Outcome

FI reviewed ISS ESG's engagements with companies held in our portfolio and found no material concerns. The relationship was renewed.

### **ESG Data Providers**

FI makes wide use of data from multiple data services providers, including ESG data from MSCI ESG Research and Sustainalytics. This ESG data may be used in the investment decision making process as well as in client guideline monitoring and reporting. The Client Guidelines and Assurance team (CGA) is responsible for ensuring our ESG data providers such as MSCI ESG Research have received clear instruction and criteria necessary for supporting ESG-related screens. More generally, CGA is responsible for the daily monitoring of any holdings violating an institutional client's restrictions, FI's own restrictions, and international sanctions lists before and after purchase of the position. For example, this may include monitoring revenue generation in specific industries (gambling, weapons, alcohol, tobacco, thermal coal etc.) utilising various resources from MSCI ESG Research and CRIMS.). Any violations or potential violations are elevated to the IPC for review.

## 2022 Outcome

In 2022, we expanded our relationship with MSCI to include MSCI ESG Climate Value-at-Risk reporting and MSCI ESG EU Sustainable Finance reporting. These additional data sets allow us to report further on Climate Modeling, portfolio Implied Temperature Rise, portfolio climate VaR based on multiple climate scenarios, portfolio holdings alignment to various climate initiatives such as the Paris Accord, and portfolio alignment with the EU Taxonomy and Sustainable Finance Disclosure Regulation (SFDR).

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Monitoring of ESG data providers occurs annually, on contract renewal dates, and ad hoc. ESG data providers are assessed on the timeliness, responsiveness, and accuracy of the information that they deliver to the investment management and CGA teams.

## 2022 Outcomes

As part of ongoing monitoring, FI reviews the emissions data of ESG portfolios. During a periodic review, FI noticed the scope 1+2 carbon intensity data reported by our ESG data provider for a US-based Materials holding increased dramatically in April 2022 estimates. Upon further investigation from the FI Research teams, FI identified a potential error in our ESG data provider's data and asked them to re-examine their figures and calculations. FI noted sales and carbon emission data provided by the company's CDP response mismatched due to the company's acquisition of a separate Materials company in 2020. The ESG data provider ultimately acknowledged their error and updated figures resulting in a lowering of the company's Scope 1+2 carbon intensity estimates.

The investment management industry relies heavily on third party ESG data providers for accurate and timely information. Data provider's estimates are not infallible and require managers to actively engage when errors or methodological breakdowns occur. In this case, FI's engagement with its primary data provider benefited not only our clients, but also any industry participant using this company's Carbon Emissions data.

During a review of data used in screening for ESG portfolios, FI identified a larger than expected value for the thermal coal power generation of a portfolio holding in the Metals & Mining Industry. FI's Research teams reviewed the relevant data from the company's 10-K and our ESG data provider's methodology and determined there may have been a calculation error in the provider's data. FI noted the potential error and the ESG data provider ultimately adjusted its figures for the company in question.

The investment management industry relies heavily on third data ESG data providers for accurate and timely information. Data provider's estimates are not infallible and require managers to actively engage when errors or methodological breakdowns occur. In this case, FI's engagement with its primary data provider benefited not only our clients, but also any industry participant using this company's thermal coal power generation data.



## PRINCIPLE 9: ENGAGEMENT

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

Corporate engagement is an important tool to ensure the companies we invest in are appropriately managing relevant ESG issues, and to support our clients in achieving their own stewardship objectives.

Consistent with our objective to increase corporate engagement activities (as described in Principle 1), FI holds meetings with management as necessary to discuss issues we feel are pertinent to analysing the company or better understanding peers or relevant industry factors. Information uncovered during engagement is incorporated into our fundamental analysis. We have dedicated staff that work to identify ESG risks and opportunities, and conducts engagement with companies.

Our Engagement Policy, posted to our [website](#), describes how we identify and prioritise engagement opportunities, our approach to collaborative engagements, how we manage conflicts of interest, and our Proxy Voting Policy.

### Dedicated Engagement Specialists

In 2019, we established the Investor Responsibility and Engagement (IR&E) team to strengthen our ESG corporate engagement programme. In 2022, this team continued to lead our ESG engagement work, collaborating closely with the Research Analysts on engagement opportunities and further facilitating ESG integration into the investment process. The team expanded in 2022, adding a second Analyst at year-end to support the firm's Responsible Investments programme.

We report our activities publicly and to our clients each quarter, as described in Principle 6.

#### 2022 Outcome

In 2022, we increased the number of companies engaged over the previous year.

Although we intended to further develop fixed income engagements in 2022, this enhancement was postponed due to capacity constraints. Therefore, no fixed income examples are currently available. However, in 2023, we have initiated the process of developing our fixed income engagement program.

### Engagement Focus Areas

We prioritise multiple factors in each ESG category, as detailed below.

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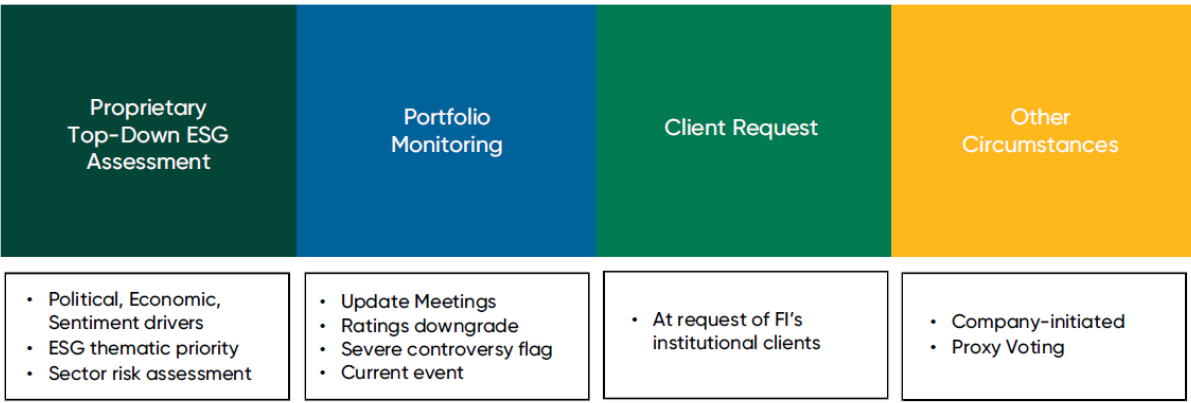


Within our focus areas, many of our engagement opportunities are identified by utilising a combination of top-down quantitative and qualitative information to generate focus lists. The lists are further vetted based on bottom-up company research, which includes reviewing company financial and sustainability disclosures, analysis from our ESG research providers, research from responsible investment network partners and relevant NGO reports. Conducting peer analysis of ESG leaders and laggards highlights potential gaps in disclosure or performance for the candidate company.

In addition to our primary engagement approach, we monitor our holdings on an ongoing basis and consider engagement whenever concerns arise related to a company's business.

To summarise, engagements may be considered when:

- We utilise our top-down process based on issue, geography, sector or strategy.
- Our third party ESG ratings provider significantly downgrades a company's rating.
- A company's activity results in it being assigned a red flag (severe controversy.)
- We decide against buying a security in an ESG portfolio for ESG-related reasons.
- The company no longer complies with our ESG screens.
- The company has salient environment, social and/or governance issues.
- We seek to learn more about an upcoming proxy vote.
- At the request of an institutional client.



## Thematic Engagement Focus

FI believes its top-down approach is well suited to ESG integration and effective stewardship of macro issues such as climate change, biodiversity or human rights violations. Because financial markets do not properly value the risks and opportunities associated with such macro issues, FI believes corporate engagement is a powerful tool for investors to address these portfolio-wide, interconnected risks.

We continued our focus on biodiversity topics in our 2022 corporate engagements, prioritising three sectors – energy, consumer goods and materials – for the high impact that these sectors have on natural capital and biodiversity. We initiated engagements on specific issues of land degradation, deforestation, water stewardship, and pollution & waste.

FI participated in the PRI-convened Sustainable Commodities Practitioners' Group, which concluded in 2022. In the group, asset owners and asset managers worked to build awareness and share current best practices in responding to commodity driven deforestation. Investors shared their practices and worked to align their engagement objectives, metrics and practices in collaboration with technical experts. Participation in PRI's working group has helped us enhance our expertise on relevant metrics, indicators, and assessment frameworks on sustainable commodities and natural capital associated with our thematic engagements focused on biodiversity risks.

## Developing Well-Informed and Precise Objectives

Our engagement selection methodology described above produces insights that shape the engagement objectives. The review of a company's ESG strategy, performance and disclosures, which is then compared to peers within its sector, region and size, helps us understand the company's relative positioning. This analysis can highlight specific gaps in areas including but not limited to:

- ESG strategy;
- ESG policy;
- Disclosure of and performance of engagement activities.

The gaps identified are the basis of the objectives of an engagement. Once the objective is identified, we initiate engagement and monitor progress over time. Common objectives are gathering information, improving ESG disclosure, urging the company to establish a policy for a salient ESG issue, or setting targets/strengthening performance on a particular ESG issue. When conducting engagements related to climate issues, we consider both direct and transition risks and opportunities on our holdings. During the reporting period climate was our largest engagement topic.

### Setting Engagement Objectives Example #1:

Many of our engagements consist of multi-year efforts leading to follow up engagements. In 2020, we met with an Asian energy company whose ESG initiatives were limited in scope and not driven by a comprehensive sustainability strategy. We reviewed the company's geographic footprint and believed the ad-hoc approach could result in missed business opportunities. The objective was to persuade the company to establish GHG emissions reduction targets as part of a larger sustainability plan. FI followed

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up with the company in 2022, and the company reported it had made significant progress and had set a net zero ambition – a notable milestone in the engagement. Please see Engagement Example #1 in the next section for a full summary of the engagement.

## Setting Engagement Objectives Example #2:

FI is a signatory to CDP’s Climate, Forest and Water programmes. Annually, CDP identifies high-priority companies for its Non-Disclosure Campaign and asks its signatories to engage companies on the list. We reviewed the list against our holdings, and selected companies after confirming the relevance of the disclosure to the companies’ operations. For these engagements, the objective is to persuade the companies to voluntarily report using CDP’s standardised questionnaires.

Please find below a sample engagement timeline, based on a recent multi-year engagement with a US Energy company.

## Engagement Timeline Example

### ENVIRONMENTAL & GOVERNANCE ENGAGEMENT – ONGOING

Purchased US Energy company in Global Equity Strategy.	<p><i>Company set new Scope 1 &amp; 2 GHG emissions reduction targets and released its first climate lobbying report.</i></p> <p><i>A shareholder proposal requesting Scope 3 emissions reduction targets passed with majority support.</i></p>	<p><i>Suggested setting Scope 3 GHG targets and joining Oil &amp; Gas Methane Partnership (OGMP 2.0).</i></p> <p><i>As part of its Energy Transition Plan, the company acquired a renewable fuels producer.</i></p> <p><i>A methane-related shareholder proposal passed with board support.</i></p>			
Q2 2018	Q2 & Q3 2020	Q2 2021	Q3 & Q4 2021	Q1 & Q2 2022	Q4 2022
	<p>Q2: Initiated engagement with General Manager of ESG Engagement.</p> <p>Discussed the company’s strategy to manage climate-related business risk. Suggested stronger GHG reduction targets.</p> <p><b>Q3: Company agreed to investors’ request to meet with the CEO (held in Q4)</b></p>		<p><b>Q3: The company revealed its Energy Transition Plan, featuring a \$10bn commitment by 2028 to stake out a competitive position in biofuels, hydrogen and carbon capture.</b></p> <p>Q4: FI met with two directors regarding the board’s response to shareholder proposals.</p>		<p>Met with two directors to encourage setting ambitious GHG reduction targets and participation in OGMP 2.0.</p> <p><b>Company published methane report.</b></p>

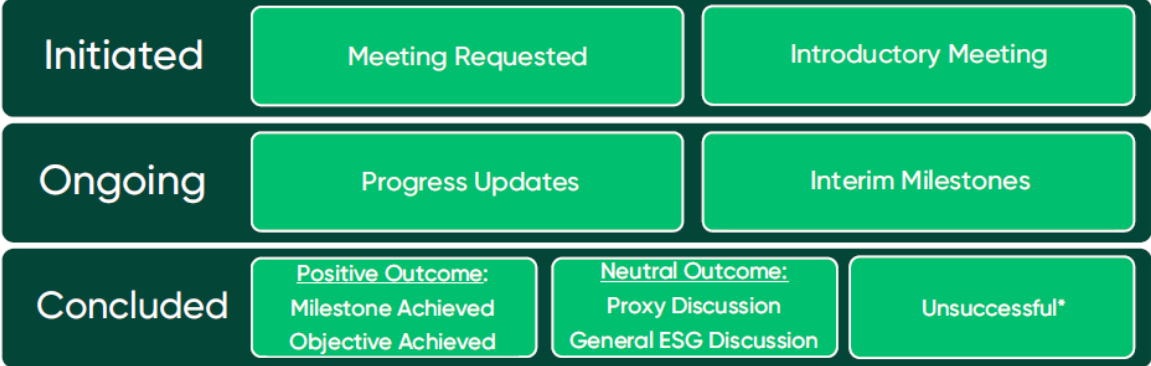
OBJECTIVES
<p>FI engaged a US Energy company with other investors to encourage:</p> <ul style="list-style-type: none"> <li>- aligning the company’s greenhouse emissions with a globally established target</li> <li>- strengthening its governance, and</li> <li>- providing investors with sufficient climate-related financial disclosures.</li> </ul>

OUTCOMES
<ul style="list-style-type: none"> <li>- Established, and later strengthened, Scope 1 and Scope 2 emissions reduction targets.</li> <li>- Published a new climate impact report, climate lobbying report, and methane management report.</li> <li>- Disclosed a large-scale energy transition plan that allows for revenue growth while targeting solutions to hard-to-decarbonize segments such as aviation and heavy transport. Also acquired a renewable fuels company.</li> </ul>

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## Assessing Engagement Outcomes

Following an engagement, we assess progress against the objective(s) and follow-up as needed. We also monitor company progress over time. Some engagements are concluded after a single phone call while others last years. We assess our effectiveness based on the objective. In addition to FI's standard engagements, we also participate in the annual CDP Non-Disclosure campaign, a collaborative initiative that encourages companies to report environmental data using one or more of CDP's questionnaires (Climate, Water, Forests). CDP engagements are assessed as "objective achieved" or "unsuccessful."



\* Not all engagements will lead to a successful outcome.

## Engagement Methods

Corporate engagements often take time to produce results. We usually meet with senior management via conference call, video call or in person. We also conduct engagement in writing, particularly in emerging markets. In 2022, all engagements were held by phone conference or video conference (38%) or email (62%). Engagements typically consist of multiple meetings to discuss the issue(s) and assess changes in the company's policy and/or performance. If the engagement stalls or a company is unresponsive, we will consider the escalation steps described in Principle 11, which include options up to and including divestment.

Please note, we typically engage with companies when there is a financially-relevant objective, at a client's request, and/or in areas in-line with our clients' ESG priorities.

### Engagement Example #1:

Engagement Category: Climate Change Strategy; Land Use; Health & Safety

Objective: Follow up on a previous engagement encouraging development of a sustainability strategy, including reduction of GHG emissions.

Engagement Summary: FI held a follow up engagement with an emerging market energy services company to discuss setting GHG reduction targets and receive a status update on its sustainability



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initiatives. During our initial meeting we reviewed the company's geographic footprint and believed its ad-hoc approach could result in missed business opportunities.

**Climate Change Strategy:** In a significant engagement milestone, the company announced a Net Zero 2050 ambition. It is also devoting capex to short-term operational efficiencies and intends to disclose reduction targets and intermediate goals in the 2022 Annual Report.

**Biodiversity Impact:** FI inquired about the company's biodiversity risk mitigation strategy, especially at its biggest operational site. For new projects or expansions, the company conducts detailed environmental impact assessments (DEIA) focused on biodiversity, water pollution, air quality, waste management and noise pollution impacts. The DEIA informs site-specific environmental management plans (EMP), which are audited by a consultant. DEIAs are not conducted on existing sites.

**Employee Health & Safety:** The company's health, safety & environment governance framework is structured and well-developed with a disclosed commitment to zero harm to people, zero damage to environment, zero damage to assets and zero non-compliance. FI asked if incentives are tied to meeting the metrics. The company has introduced an incentive programme that encourages employees to report and intervene when confronted with unsafe work conditions. The programme is a metric in employee annual performance scoring.

## 2022 Outcome

**Status: Ongoing engagement** – When FI initiated engagement in Q4 2020, the company's ESG initiatives were limited in scope and not driven by a comprehensive sustainability strategy. In our 2022 follow up, the engagement reached milestones with the adoption of a net zero ambition and upcoming interim targets. In our view, the initiatives on biodiversity are encouraging and employee health and safety programmes are satisfactory. The company is better positioned to work with customers that are participating in the energy transition.

## Engagement Example #2:

**Engagement Category:** Executive Compensation; Climate Change Strategy; Clean Technology

**Objective:** Encourage amendments to the executive compensation plan to align with performance and understand the company perspective on adhering to disclosed sustainability commitments.

**Engagement Summary:** In 2021 and 2022, a U.S. oil and gas service provider saw its advisory vote on executive compensation fail to win majority support. In response to feedback from FI and other shareholders, in Q3 2022 the company announced changes to its long-term incentive plan designed to 1) more closely align with performance and 2) incorporate metrics on key ESG targets. FI was supportive of the suggested changes as they would help to limit payout during periods of negative performance.

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Emissions Reductions Targets: The company has set ambitious Scope 1 and 2 GHG emissions reduction targets. The company acknowledged external campaigns seeking to persuade companies to rescind such targets, but said its plans will not change as it intends to forge ahead in balancing the needs of energy security and sustainability.

Green Technologies: FI inquired if the recently passed U.S. Inflation Reduction Act (IRA) may offer opportunities in green technology for the company and the industry. The specific impact of the law and company's strategic responses is under consideration by executive management. The company believes that the law will have significant impact in deploying new technologies in the energy services industry including capital to deploy carbon capture, utilisation and storage (CCUS) technology at scale.

## 2022 Outcome

The company announced it is taking steps to better align pay with performance, and is incorporating ESG metrics into its executive compensation plan. We initially spoke to the company in Q4 2021, after its executive compensation plan received less than 50% support from investors. At that time, we encouraged the Compensation Committee chair to consider amendments, such as including ESG metrics as non-financial metrics of its performance plan. In September 2022, after another failed vote, the company disclosed that it had made further changes including incorporating ESG metrics on sustainability and diversity & inclusion in the short-term incentive, which represents a milestone in the engagement.

### Engagement Example #3:

Engagement Category: Climate Change Strategy; Sustainable Sourcing

Objective: Encourage development of the company's climate change strategy and the sustainable management of packaging and plastics waste.

Engagement Summary: Due to recent dramatic growth, a Latin American online retailer saw its Scope 1 emissions increase by 225%, Scope 2 by 89%, and Scope 3 by 125% year-over-year. The company told FI that emissions reduction is a strategic imperative and its governance structure reflects the focus. The CFO oversees the company's sustainability performance and is a major driver of a suite of policies. The company is also crafting a report per the Taskforce for Climate-related Financial Disclosures (TCFD) and is working with third party consultant to set business unit reduction targets.

To improve efficiency and reduce emissions, the company's renewable energy use has grown tenfold. Adoption of electric vehicles is another priority along with measures for operational efficiency gains. The company has leased a fleet of EVs, but it is finding that securing vendors for additional EV units is a major challenge. Additionally, the company is devoting resources to increase reuse and recycling of cardboard boxes and packaging materials.

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Since the carbon exchange market is not well developed in Latin America, the company has initiated a unique approach to offsetting its carbon footprint through direct investments in forest conservation and ecosystem preservation projects. In lieu of purchasing carbon offsets, the company has used the funds to purchase land for conservation. The company has invested USD \$18 million since the programme's 2021 launch, which runs in partnership with local and global environmental Non-Government Organisations to support regeneration projects and help preserve the biodiversity in the conservation area.

With regard to its supply chain, the company offers a premium to sustainable suppliers and provides education and incentives to sellers to be more sustainable. However, many sellers are small and may need additional support. Nearly 1,000,000 Brazilian families count the company's online marketplace as their main source of income. The company offers microloans to help the suppliers grow their business, and sustainability is not the main priority in these small loans. Hence, the sustainability drive is focused on larger sellers.

## 2022 Outcome

**Status: Ongoing engagement** – We appreciate the challenge that the company faces in addressing emissions reduction while it grows at an unprecedented pace. While it is early in its sustainability work, its leadership is focused on sustainability, as evidenced by linking ESG goals to financial metrics. The unique land conservation programme is noteworthy.

### Engagement Example #4

Engagement Category: Climate Change Strategy; Diversity & Inclusion; Executive Compensation

Objective: Seek progress updates on the company's climate change strategy and encourage disclosure of quantitative performance metrics for the compensation plan.

Engagement Summary: FI held a follow up meeting with a US medical technology company to discuss its sustainability programme. The company's programme has strong oversight by the board of directors and includes a wide range of ESG topics.

Climate Change Strategy Engagement Milestone: In a previous meeting, FI highlighted that many of the company's facilities are located in countries that are setting climate targets and suggested the company should be prepared to align with local regulations. In our follow up meeting, the company reported it had strengthened its alignment by setting a goal to be carbon neutral by 2030, including Scope 1, Scope 2 and partial Scope 3 science-based emissions reduction targets. The company has established a task force to oversee its environmental goals (climate, water and waste), but they are still early in the process.

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Diversity & Inclusion: The company said its executives have quantitative performance management objectives related to D&I but they are not disclosed. We suggested enhanced disclosure would help investors know if the company is performing in line with its targets.

Executive Compensation: The company has included ESG metrics in its executive compensation plan for several years – including the key operating drivers – but it lacks disclosure, and it is unclear if the drivers are qualitative or quantitative. We provided feedback, which the company welcomed.

## 2022 Outcome

**Status: Ongoing engagement** – This engagement has produced a notable milestone. The company will discuss our feedback and we have a follow-up meeting scheduled in 2023.

## Engagement across Categories

Given the global nature of our portfolios, we endeavour to engage across geographies, sectors and market caps (see charts below). However, an effective engagement programme is not one-size-fits-all. While large-cap companies generally have robust sustainability programmes, we recognise small cap and emerging market companies may be resource-constrained or less accustomed to engaging with investors on ESG issues. As such, a comprehensive, in-depth engagement may not be practical, so we tailor the conversation to address the issues that are most salient to the business. When feasible, we also include our fixed income holdings in the engagements.

## Stewardship Reporting

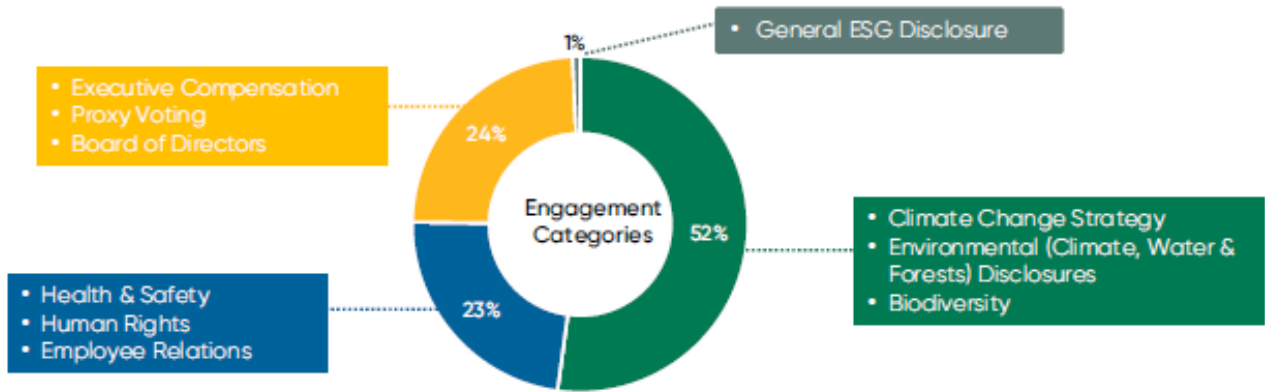
To provide transparency about our stewardship activities, we post quarterly engagement and proxy voting reports to our website, which include metrics (such as the charts provided below) and detailed engagement examples. However, because we believe engagement is most effective when conducted privately, we do not publicly disclose company names except where it is a regulatory requirement.

### Geographic Distribution of Engaged Companies in 2022

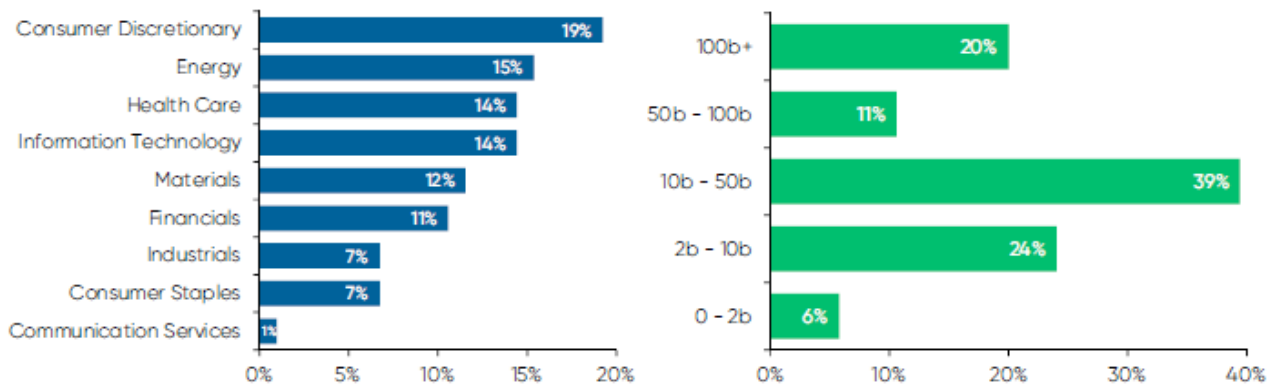


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## Engagement topics across E, S, and G categories in 2022



## Engaged Companies by Sector & Market Cap (USD Billions) in 2022



Data indicated above are based on engagement meetings for all institutional clients of FI and its affiliates as of Q4 2022.



## PRINCIPLE 10: ENGAGEMENT

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

We recognise the importance of working together, and we collaborate with other institutional investors to engage companies when we believe doing so is likely to advance clients' interests, is consistent with our policies and procedures and is permissible under applicable laws and regulations. For example, if dialogue with management fails to achieve our desired objective and we wish to retain the investment in the company concerned, we consider carefully whether taking collaborative action is likely to improve shareholder value.

We always seek to have a clear objective for collaborative engagements. As involving multiple parties in an engagement can increase complexities, we seek to ensure all collaborative engagements follow the PRI's "4 Cs" for success: commonality, coordination, clarity and clout. We prioritise collaborative engagements as we would standalone engagements (described in Principle 9).

Collaborative engagements are a priority for us, and our engagement professionals seek opportunities to participate in collaborative engagements that align with our clients' best interests. In 2022, we participated in the following collaborative engagements:

### Climate Action 100+

We are a signatory to this initiative, whose objective is to ensure the world's largest greenhouse gas emitters take necessary action on climate change. FI and other investors met with two directors at a US multinational energy corporation in an ongoing engagement to discuss key elements of the company's energy transition plan.

#### 2022 Outcome

**Status: Ongoing engagement** – Investors encouraged the company to continue increasing its target reductions for Scope 1 and 2 greenhouse gas emissions. The company is open to doing more, but directors are seeking assurance that the targets are reducing emissions in the right places (balancing ambition with feasibility). Investors requested that the company consider joining the Oil and Gas Methane Partnership 2.0 (OGMP 2.0) as a viable option to ensure methane reduction capital is spent in the right places. After discussion, the directors agreed to review OGMP 2.0 and will provide a response back to the investors.

### CDP Non-Disclosure Campaign

We participated in CDP's 2022 non-disclosure campaign, which pools institutional investors to engage companies around the world. The goal of the engagement is to persuade companies to report to the CDP using the organisation's Climate, Water and/or Forest disclosure questionnaires—which are a valuable data source for investors and stakeholders. We engaged 38 companies in 10 countries, either

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as a lead investor or a co-signer. In total, the companies were asked to complete 55 questionnaires, of which 12 were returned by the deadline.

## 2022 Outcome

We expected a 10-12% success rate for this initiative, however the actual success rate was 22%, exceeding what we anticipated.

## Collaborative Engagement Service

In 2022, we contracted with a third-party collaborative engagement service. These engagements focus on companies identified under Norm-Based Research as failing to prevent or address social and environmental controversies in line with established standards for Responsible Business Conduct.

## 2022 Outcome

We participated in 19 engagements addressing topics such as collective bargaining & unions, regulatory actions, employee relations and climate change strategy. We achieved our objective with an Asian electronics company after learning that allegations against the company surrounding its failure to respect union rights in Thailand had been resolved. We also achieved our objective with a European automobile manufacturer after seeking company updates on policy changes and remediation efforts concerning the automaker's diesel emissions scandal that resulted in \$35 billion in fines and settlements. We learned the company has put several measures in place to mitigate risks to prevent similar incidents from happening again.

## Client Co-Engagement

In 2022 we expanded our client co-engagement programme, which allows us to conduct engagement alongside our clients or invite clients to request that FI engage a company on their behalf. This collaboration also allows our clients to experience first-hand how our engagements can lead to outcomes.

### Client Co-Engagement Example

Objective: Encourage adoption and implementation of Scope 3 GHG emissions targets, encourage increased investment in clean technology, and encourage the company to incorporate ESG metrics into executive compensation.

Engagement Summary: One of the Fisher Group's institutional clients set an objective for its portfolio to be aligned with Net Zero GHG emissions by 2050. After our analysis flagged a U.S. transportation company as an outlier in the client's portfolio due to its Scope 3 emissions, the client joined the Fisher Group in a co-engagement with the company. The company is a market leader in manufacturing engines for heavy duty and medium sized trucks. Known for product superiority and fuel efficiency, the company is the exclusive supplier for major automobile manufacturers around the world.

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**Climate Change Strategy:** The company believes that decarbonisation is a key growth opportunity as well as a critical need. It has set robust Scope 1 and 2 emissions reduction goals tied to interim 2030 reduction targets, and has set an ambitious science-based target to reduce a portion of its Scope 3 emissions. Its comprehensive plan features ways to increase efficiency for its products that are currently in use. In addition, new products will benefit from engines that run on low-carbon fuel sources, progressing over time from natural gas to hydrogen to fuel cell/battery. The company's R&D budget is geared toward low and zero emissions technologies. The North American market is its first priority and then it will shift to the rest of the world.

**Clean Technology:** We inquired if the company's ambitious goals can be achieved with its modest level of forecasted capex on clean technology R&D and new products revenue. The company acknowledged the gap but noted that spending will change based on demand. The budget also seems low if the company is to participate in the clean technology opportunities created by recent legislation in the U.S.

**Executive Compensation:** We inquired if the compensation committee has considered incorporating its ESG performance into executive compensation metrics. While the company does not currently use ESG metrics in its compensation programme, it is a priority discussion topic for the company. We offered feedback of investor expectations regarding quantitative, well-defined, relevant ESG performance metrics in the long-term incentive plans.

## 2022 Outcome

**Status: Ongoing engagement** – The company is committed to being a market leader in transitioning the heavy- and medium-duty truck markets, and has set ambitious 2030 emissions reduction targets across Scopes 1, 2 and partially Scope 3. It is prioritising natural gas engines and efficiency optimisation until regulatory requirements support the transition to hydrogen and battery engines. However, it is currently a high emitter due to the scale of its Scope 3 emissions. Although it will likely remain a high emitter for some time before it can bend the curve downward, we believe it is well positioned for continued leadership in the low-carbon heavy- and medium-duty truck markets. In addition, we will continue to encourage the incorporation of ESG metrics and targets into the company's executive compensation program.

## PRINCIPLE 11: ENGAGEMENT

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

Portfolio holdings are continuously monitored and material ESG issues are elevated to FI's Investment Policy Committee (IPC) when appropriate. We hold meetings with company management as necessary to discuss issues we feel are pertinent to analysing the company or better understanding peers or relevant industry factors. Information uncovered during engagement is incorporated into our fundamental analysis. We have dedicated staff that works to identify ESG risks and opportunities and conducts engagement with companies.

### Corporate Responsiveness

Engagement provides a direct channel to discuss investor expectations and provide feedback on a company's ESG policies and practices. Company boards and management use shareholder feedback and engagement to learn of industry relevant risks and opportunities. Thus, in general, boards and management endeavor to be responsive to their shareholders. In situations where a portfolio company is either unresponsive despite repeated inquiries or continues to perform poorly against the engagement objective, FI may seek to escalate the engagement dialogue.

Our experience shows stewardship concerns are usually best resolved by direct, confidential contact with company officials—whether at the board or management level as appropriate. Corporate engagements often take time and multiple rounds of dialogue to produce results. In terms of meeting the objectives of engagement on ESG concerns, we recognise that companies may not be immediately able to respond with additional disclosures, policy considerations or policy changes. In FI's case, many of our current engagement dialogues with companies were initiated within the prior year and thus remain "ongoing". Therefore, escalation has generally not been applicable.

If we consider escalating the engagement, we evaluate the materiality of the issue, the company's record of previous responsiveness and whether escalation serves our clients' best interests. Based on the evaluation, the IPC may take any of the following escalation action, at its discretion:

- Seek additional meetings with company management or board,
- intervene in concert with other institutions on the issue,
- vote in support of related shareholder proposals,
- withhold our support from one or more board members or,
- divest our holdings.

If we activate escalation, we would inform the management team of our decision as well as our rationale.

### Escalation: Differentiated Approach

Market context (i.e., knowing that business norms and escalation techniques may vary based on region or asset class) is important when considering escalation due to company unresponsiveness. ESG

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disclosure is more mature in markets like Europe or North America, where we can dig into the details of a sustainability plan and myriad disclosures to seek specific engagement objectives on material ESG concerns. In these markets, we are likely to utilise proxy-related tools such as board accountability or voting for shareholder proposals on ESG issues.

In less mature markets, such as Asia or Latin America, engagement dialogues often begin with the goal of asking companies to adopt a sustainability plan or disclose ESG performance. Here the primary objective is to communicate investor expectations on ESG issues that are relevant for their business. For example, in mid-2022 we re-engaged with a Malaysian energy company (described in Principle 9) and the company has made significant progress including a net-zero ambition. FI encouraged the company to set suitable interim targets and will continue to monitor its progress.

Depending on the company size or the ownership structure, some companies may be new to interacting with shareholders on ESG concerns, or may not respond to the engagement request until a fully formed response is ready. Therefore, we believe there is value in letting the companies know of the many ESG issues that investors are evaluating, even if the company is initially unresponsive. In these markets, collaborative engagement in concert with other investors can be an effective escalation strategy. Therefore, in markets where ESG practices are less established, there is tremendous opportunity to drive the growth of sustainable business practices, but we should be prepared to patiently wait out initial unresponsiveness. Similarly, our requirements in the fixed income investments do not allow great latitude to escalate if we have ESG concerns with our holdings.

### Escalation Example:

FI participated in the Carbon Disclosure Project’s (CDP’s) 2022 non-disclosure campaign (NDC), which pools investors to engage global companies. Many of the companies that we selected had been non-responsive to the CDP in previous years and also did not submit in the 2022 reporting period.

2022 Outcome
We identified 10 companies as multi-year non-responders to the CDP, which make them candidates for potential escalation in 2023.



## PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

*Signatories actively exercise their rights and responsibilities.*

### Voting Rights: Differentiated Approach

We exercise our proxy voting rights and responsibilities with the assistance of Institutional Shareholder Services Inc. (ISS), an independent, third-party voting service. This includes all of our institutional strategies, assets, and geographies (including all Funds and Separately Managed Accounts) where strategies are offered, and we are authorised to vote. Our voting policy is derived from ISS and incorporates geographical variances due to differences in local norms of good governance, regional/local regulatory differences and listing requirements. Each of these is specific to the policy that is being voted. In addition, institutional guidelines may be structured in accordance with custom ESG standards, which is then communicated to ISS by our back-office professionals.

Many proxy issues fall into well-defined, standardised categories, and as a result we have developed guidelines in conjunction with ISS for these categories. ISS maintains a wide-ranging set of corporate governance standards—including board independence and diversity, director meeting attendance, outside directorships, auditor independence, analysis of executive remuneration, and many other factors. We work with ISS to further refine our guidelines and to track and vote our clients' proxies accordingly.

While FI's Investment Policy Committee (IPC) utilises ISS for shareholder vote recommendations, they reserve the right to override ISS recommendations as they, and FI's Research Team, see fit. Any IPC override is logged by the Securities Operations Team and reported to the Proxy Committee on a quarterly basis.

### Voting Policy Disclosure

We disclose our institutional voting practices through several avenues including the following:

- Our Proxy Voting Policy is disclosed and publicly available via our [website](#).
- We define significant votes and publish the information pertaining to them in publicly available Proxy Voting reports; these are available via the link provided above.
- Full account specific proxy voting disclosure is available upon request to our clients. Full proxy voting breakdown reports are routinely provided to our clients on a recurring basis (generally quarterly or annually) or on an ad hoc basis when they are requested.

In 2022, we maintained the frequency of this reporting (quarterly) and continued to provide greater transparency on an ongoing basis regarding our proxy voting activities.

Furthermore, we maintain objectives and policies in order to monitor this third-party service. Our oversight procedures for ISS are described in our Proxy Voting Reports and Policies on the Institutional Group [website](#).

## Proxy Voting and Outcomes Examples

**Example #1:** In Q2 2022 we engaged a U.S. bank (listed equity) to understand its climate strategy and progress in light of a “vote no” campaign against some director nominees at the 2022 annual general meeting. The campaign organiser contended that the board had made insufficient progress towards aligning the bank with the goal of limiting global warming to 1.5 degrees Celsius.

### 2022 Outcome

FI posed several questions to the company, and the information received was incorporated into our Analyst’s vote recommendation. No further escalation was needed.

**Example #2:** We engaged a U.S. energy company (listed equity) to encourage aligning the executive compensation plan with performance and to understand the company’s perspective on adhering to disclosed sustainability commitments.

### 2022 Outcome

The company announced it is incorporating ESG metrics into its executive compensation plan. We initially spoke to the company in Q4 2021 after its executive compensation plan received only 46% support from investors. At that time, we encouraged the Compensation Committee chair to consider including ESG metrics as non-financial metrics of its performance plan. In 2022, the company disclosed that it has introduced ESG metrics on sustainability and diversity & inclusion as 20% of the total short-term incentive, which represents a milestone in the engagement.

## Voting Guidelines & Client Voting Flexibility

If the views of the IPC vary from ISS as applied to corporate governance standards, we vote shares in alignment with our view of the best interests of our clients—and not necessarily with management. Voting decisions are based on our internal evaluation in each case and may rely on our own company specific research or other outside research group, in addition to the views of ISS. We typically do not tell the company in advance of our intention to abstain or vote against management: doing so may expose our investment professionals<sup>2</sup> to unhelpful pressure, which can impede effective discharge of their responsibilities on behalf of clients.

Clients in segregated accounts may override and direct voting compared to our standard policy in three main ways:

- Clients may choose to override individual votes on an ad hoc basis.
- Clients may choose to vote their own proxies, either through our partnership with ISS or through use their own independent proxy advisor.
- Clients may choose an alternate proxy policy available such as our in-house custom ESG policy, or another specialty policy from ISS including ESG or Taft-Hartley etc.

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Clients invested within our pooled vehicles have limited ability to direct voting to ensure that no individual client is over-influencing the votes of another client. However, we do exercise our voting rights within all pooled vehicles.

Additionally, we have partnered with ISS to create a custom voting policy consistent with our ESG policies that is made available to all of our clients. We frequently engage with company management on proxy voting issues.

## Securities Lending & Monitoring Voting Rights

In general, we do not participate in securities lending. We would enter in securities lending arrangements only upon written client request, assuming the client's account custodian can act as the client's lending agent, although this is rare in occurrence. As these agreements are client-directed, we are not able to comment on their effectiveness.

Mitigating 'empty voting' along with broad monitoring of shares and voting rights remain industry-wide challenges for asset managers. Current limitations to ensure accurate records between custodians, managers and proxy providers remains challenging due to differences in record and meeting dates, custodial share recall timing differences, and other operational challenges. Because we do not participate in securities lending, we reduce the risk of 'empty voting' and any such instances are outside of our control.

## Voting Proportions

In the 2022 reporting period, we voted over 99.6% of the shares for which we were authorised to vote. The fraction of votes not cast was due to several factors including some of our institutional clients not meeting residency status requirements in issuing countries where votes were cast.

We currently do not have a full public record/disclosure of our votes however, we make the voting history & rationales for all institutional voting decisions available to clients. Additionally, consistent with SRD II regulation, significant votes and rationales for those votes are available publicly for each Fisher Group business unit at each subsidiary's website. Proxy Voting Reports for the previous 12 months (rolling) are posted to our [website](#).

## Amendment Seeking – Fixed Income

For fixed income assets, the most common way in which amendments or changes to terms and conditions in indentures are considered is through the bond indenture consent solicitation process. During this process, issuers seek amendments or changes to terms of indentures from existing bondholders such as Fisher Investments. In such situations, we actively assess the requested changes to determine if they are in the best interests of bondholders and our clients, and responds accordingly. Note, fixed income assets under management make up ~7% of our assets (see Principles 6 and 7); nearly all managed in pooled instruments such as ETFs. We manage less than 1% of our total assets under management in individual fixed income securities (e.g., corporates, municipal, mortgage backed and sovereign) where we might seek amendments or changes to terms and conditions.

## CONCLUSION

Fisher Investments (FI) takes a client-centric approach to Responsible Investments (RI) and is dedicated to continuously improving our responsible investment capabilities and offerings to meet and exceed the expectations of our ESG clients. Further, we are particularly proud of the increased engagement activity undertaken by our firm in 2022, including the addition of staff, the development of an Outcomes Framework, and the expansion of biodiversity-related engagements. We see this increased activity and the increased level of response, as highlighted throughout this report, to be a continuation of our upward trend within the field of active ownership which we plan to continue in the future. In conclusion, we are committed to putting the best interests of our client's first, whilst incorporating our responsibilities as a signatory of the Principles of Responsible Investments (PRI) and our commitment to this Code, in our investment approach.

## Review and Approval Process

This report has gone through an extensive review and approval process by members of our Responsible Investments & Engagement vertical, Senior Managers within the Institutional Group, our research staff, and a member of our Investment Policy Committee. After finalising our 2023 submission, we reviewed the report with multiple levels of Senior Management and the Law and Compliance Department, before presenting the final report to the Fisher Investments Europe Board of Directors for final approval and execution.

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## Disclosures

<sup>1</sup> Fisher Investments Europe Limited, trading as Fisher Investments Europe (FIE), authorised and regulated by the Financial Conduct Authority (FCA), wholly owned by Fisher Asset Management, LLC, trading as Fisher Investments (FI). FIE outsources portfolio management to its parent company FI. FI is an investment adviser registered with the US Securities and Exchange Commission (SEC). As of 31 December 2022, assets valued over £143 billion GBP. All assets as of 31 December 2022 in this document are preliminary and subject to reconciliation of accounts. FI and its subsidiaries consist of four business units – Fisher Investments Institutional Group (FIIG), Fisher Investments US Private Client Group, Fisher Investments Private Client Group International, and Fisher Investments 401(k) Solutions Group. FIIG services significantly all of FI's institutional accounts. Fisher Investments US Private Client Group and Fisher Investments Private Client Group International serve a variety of equity, fixed income, and balanced assets for a substantial majority of the firm's private client accounts. 401(k) Solutions provides investment-related fiduciary and plan consulting services to employersponsored retirement plans in the United States with less than \$20 million USD in assets. For separately managed accounts, FIE serves as the investment manager and FI serves as the sub-investment manager. FI's Investment Policy Committee (IPC) is responsible for all investment decisions for the firm's strategies.

<sup>2</sup> The investment professional team is comprised of the Investment Policy Committee (IPC), Research Analysts, Traders, Portfolio Implementation Analysts, Portfolio Analytics & Reporting Analysts, Institutional Portfolio Specialists, and select supervisors within our Portfolio Management and Institutional Departments whose functional responsibilities are directly involved in supporting the portfolio management process for Institutional strategies. Investment professionals are generalists and devote their efforts to all Fisher Investments Institutional Group (FIIG) strategies. Some investment professionals also devote their efforts to other business units' strategies.

<sup>3</sup> As of 31 December 2022, assets valued over £143 billion GBP. All assets as of 31 December 2022 in this document are preliminary and subject to reconciliation of accounts. Pound Sterling asset values were calculated by using the USD-GBP exchange rate as of the dates indicated. Source: FactSet.

<sup>4</sup> Great Place to Work selects winners of the Best Workplaces lists primarily based on employees' responses to their industry-defining Trust Index® Survey, taken as part of Great Place to Work® Certification. Results from the survey are highly reliable, having a 95% confidence level and a margin of error of 5% or less. Great Place to Work® is a recognised global authority on workplace culture and producer of important reviews, including the annual Fortune "100 Best Companies to Work For®" list. Great Place to Work® anonymously surveyed more than 2,100 employees of Fisher Investments and its subsidiaries as part of its comprehensive review process. The survey measured several factors including compensation, manager quality, overall workplace atmosphere and the pride that employees feel working for Fisher Investments and its subsidiaries. For more information, please visit: <https://www.greatplacetowork.com/certified-company/1338751> and <https://www.greatplacetowork.com/our-methodology>.

Fisher Investments UK was recognised on the 2021 UK's Best Workplaces™ for Women list by Great Place to Work® UK. Great Place to Work®, the global authority on workplace culture, anonymously surveys organisations employees to identify how the organisation fosters a positive work environment for employees. Based on survey results, Fisher Investments UK was recognised as one of the 2021 UK Best Workplaces™ for Women in the Large Companies category.



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<sup>5</sup> The annual Climetrics Fund Awards recognise the top five Global, European, US, and Emerging Markets equity products for environmental performance. Award winners are selected from a universe of approximately 20,000 products based on their underlying "Climetrics" scores. Climetrics scores are based on a product's portfolio holdings, investment policy and governance of environmental issues. Fisher Investments pays a fee for promotion and logo distribution rights.

<sup>6</sup> This award recognises the top performing US equity strategies most committed to socially responsible investment practices. The Swiss Sustainable Funds Awards winners are selected by an independent committee, which evaluates funds and asset managers on qualitative and quantitative factors, including investment process, sustainability objectives, management team quality and performance history. Fisher Investments pays a fee for promotion and logo distribution rights.

<sup>7</sup> For purposes of defining "firm", FI was established as a sole proprietorship in 1979, incorporated in 1986, registered with the SEC in 1987, replacing its prior registration of the sole proprietorship, and succeeded its investment adviser registration to a limited liability company in 2005. "Years with Firm" includes time spent with FI and/or its subsidiaries, as of 31 December 2022.