Phoenix

Engagement Policy

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Phoenix Asset Management Partners Ltd. is authorised and regulated by the Financial Conduct Authority (FCA)

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Introduction

Phoenix is required to develop and publish an engagement policy in response to Shareholder Rights Directive II (SRD II) (Directive 2007/36/EC as amended by Directive 2017/828), enacted by the FCA in COBS 2.2B SRD requirements.

Amongst other things, an engagement policy must describe how Phoenix monitors investee companies, cooperates with other shareholders and communicates with all relevant stakeholders.

In addition, on an annual basis, Phoenix will declare significant votes made in relation to its investee companies during the previous calendar year.

Application

For the avoidance of doubt, the regulation and this policy is only directly applicable to Phoenix where the holding is a company listed on a regulated exchange (the London Stock Exchange for example) and as such will not include any reference to unlisted entities, funds or any other financial instrument that is not a listed security.

In addition, Phoenix is not required to disclose votes that are insignificant due to the subject matter of the vote or the size of the holding in the company.

Information relating to value or number of shares held will not be disclosed.

Engagement at Phoenix

Research and continual assessment

All research at Phoenix is primary, interacting with the target company and its products or services ("scuttlebutt") as well as a thorough review of published financial documents.

If an investment passes initial assessment it moves into the next stage – called the AAA system. The AAA system was developed in house and is used to help evaluate potential investment. Three key elements are assessed using our pre-defined criteria within the categories Business, Management and Price:

- Business – Important considerations are: Return on capital (ROC), pricing power, market position and predictability, transparency, regulation, reputation and past performance
- Management – looking for a good management with integrity and a pro-shareholder attitude for capital allocation and share ownership
- Price – we buy at a price where we expect to make at least 15% pa. and use Ben Graham's "Margin of Safety". We consider the price to be the total of all debt and equity

If an investment is made, then it will be continually assessed using the proprietary Dynamic Relative Evaluation Assessment Model (DREAM) process. Each component under the AAA headings is rated according to our internally developed scale – it is given an "R" rating (score), a "D" rating (Depth of available material that has been analysed to come up with "R"), and a "C" rating (Confidence in "R", which has a direct relationship with the "D" rating). Every assessment is documented so we can learn from any mistakes.

How does Phoenix integrate shareholder engagement in its investment strategy?

As part of its research and continual assessment process, Phoenix will take time to understand each individual company, including how they engage with their shareholders and who those other shareholders are.

It is important to Phoenix that investee companies engage with their shareholders as this is one of the routes Phoenix takes to research and assess its investments – either through published documents or regular strategy or investor relation days. Knowledge of other shareholders is also useful, although Phoenix will not actively engage them, so as not to be unduly influenced by other views.

This knowledge may be an important factor in deciding whether a target company will become an investment, as it may help solidify Phoenix's view on a company, whether negative or positive. For example, a solid stable business will likely have good shareholder engagement and long-term shareholders.

How does Phoenix monitor investee companies on relevant matters, including strategy, financial and non-financial performance and risk, capital structure and social and environmental impact and corporate governance?

Each of these items is a factor that is considered within Phoenix's DREAM process. The strategy of the investee company is important both from the perspective of where we expect the business to be in the future but also as a yardstick to test if the company has made good on its promises both now and in the past. Performance and risk are a key feature of our internal models as is any capital structure. Where relevant, the analysis of material Environmental, Social and Governance (ESG) factors in order to understand their impact on investments can be an important part of the stock valuation and selection process. Although it is often not possible to quantify the ESG impacts on valuations, we recognise that certain ESG indicators can be useful indicators of management effectiveness. We value companies whose culture naturally encourages adherence to a strong ESG policy and principles, and our philosophy is to be supportive of management in their development of this culture.

Effective monitoring of investee companies is fundamental to fulfilling our responsibility to clients. We monitor our investee companies closely using a wide range of sources and media such as through company statements, podcasts and other investor communications.

Companies that have low levels of debt, good ROC numbers, low risk factors and transparent corporate governance are more likely to be a target for Phoenix. All of these areas are reassessed regularly, when new information is published or as market conditions change.

How does Phoenix conduct dialogue with investee companies?

Phoenix will use all available resources available to it, including attendance of strategy and investor relation days. Where possible Phoenix will seek to meet with management of investee companies and at varying levels of seniority. In many cases Phoenix has direct contact with the investee company and often will ask questions directly of a particular contact an analyst may have.

How does Phoenix exercise voting rights and other rights attached to shares?

Phoenix only invests in companies where the business risks are understood and where there is transparency in reporting. An investment will not be made if there are any significant concerns about either management or matters of corporate governance and, as a result, Phoenix is generally supportive of management.

Our policy on voting is that we will participate in every ballot that arises in respect of our investee companies. We vote electronically and via custodians. Generally, we will vote with management.

How does Phoenix cooperate with other shareholders?

As a general rule Phoenix will not seek the views of other shareholders or act collectively with them. We are not activist investors. We recognise, however, that there may be a situation that requires this and so any decision would be made on a case by case basis and always with the best interests of our investors in mind.

Good stewardship, in the sense of our investee companies being run by good, honest competent management, is essential to our long-term investment philosophy. Our confidence in the management is a prerequisite for our deciding to invest in a company. Simply put, if we like the company but don't like the management, we will not invest in that company.

How does Phoenix communicate with relevant stakeholders of the investee companies?

Phoenix undertakes primary research on all target and investee companies, this often involves contact with relevant stakeholders, be it suppliers, competitors or employees. Although it would be highly unusual for Phoenix to communicate with stakeholders in any way other than for research and assessment purposes, for companies in which we hold a controlling stake additional communication may be required or necessary.

How does Phoenix manage actual and potential conflicts of interests in relation to the firm's engagement?

We are aware that the industry in which we operate provides many areas where conflict may arise. We strive to identify and avoid potential conflicts, always acting in the best interests of our clients. In those instances where a conflict cannot be avoided, we seek to manage and mitigate it to the best of our abilities. To this end, we have internal policies and procedures and maintain a conflicts register. All identified conflicts are reported to senior management and periodic reviews are undertaken of any mitigation in place.

Significant Votes Cast

SRD II came into force in 2019. No information will be published for calendar year 2019 until the first half of 2020.

Review

This document will be reviewed and updated on an annual basis.