



Harbour Investment Funds

Stewardship Policy

August 2023

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Introduction

This document details Harbour's stewardship policy covering our engagement and proxy voting practices as one of the key elements of our overarching ESG approach. This policy is reviewed annually and is subject to Board oversight and approval.

The scope of these practices extends to all Harbour portfolios that are internally managed, across both equities and fixed interest asset classes (where relevant) representing the vast majority of assets under management. Given that most Harbour portfolios are limited to an Australasian investment universe, the primary geographies of stewardship activity are in New Zealand and Australia. Coverage also applies to passive strategies where investee companies are still engaged for better ESG behaviour and votes executed at shareholder meetings.

Engagement

Philosophy

Harbour is an active owner and believes in the value of constructive engagement with issuers to enact meaningful change. Where conflicts arise with respect to company strategic direction, remuneration, or other material issues, Harbour aims to work with senior management, the Board of Directors, and other investors to find a satisfactory outcome for all stakeholders. Harbour does not concern itself with day-to-day running of the business but focuses on strong shareholder outcomes. Our preference is to conduct engagement without involving public media as we consider this may be counterproductive to securing long lasting change.

Process

Harbour's Corporate Behaviour Survey is an ideal catalyst for initiating conversations with issuers. As Harbour's analysts need to speak with management to complete the survey, it encourages the establishment of a working relationship and maintenance of a dialogue. This relationship can be leveraged as and when issues need to be discussed. Harbour analysts are also encouraged to communicate with issuer Boards as necessary.

Harbour's thematic ESG research projects represent another avenue for issuer engagement with examples including our climate change and social justice analyses which involved extensive engagement with 20+ NZX listed companies in each case. ¹

Company annual/extraordinary meetings provide another catalyst for engagement where we may ask for clarification on an upcoming resolution from the board/senior management or provide feedback on our recommendations for improving governance following our voting decisions.

¹ <https://www.harbourasset.co.nz/research-and-commentary/findings-from-carbon-emissions-research-project/>
<https://www.harbourasset.co.nz/research-and-commentary/lifting-the-bonnet-electric-vehicle-adoption-or-a-lack-thereof/>
<https://www.harbourasset.co.nz/research-and-commentary/social-spotlight-i-employee-engagement/>

We additionally engage on an ad hoc basis where material ESG issues arise or as part of our engagement strategy focusing on key themes like climate change and modern slavery. Harbour has also been open to presenting to company Boards and senior management on our view of strong ESG practices, helping to inform their stakeholder assessments and sustainability strategies.

Aside from company level engagements, Harbour is also involved in advocating the advancement of ESG considerations in the wider market through dialogue with other industry participants such as policymakers and standard setters. These can take the form of meetings with key representatives or written submissions on public consultations.

Prioritisation

Engagement with issuers are generally conducted on a strategic basis on themes such as climate change or modern slavery are prioritised by both the materiality of the issue for each company as well as relevance to Harbour portfolios.

Materiality of these issues for companies are measured through our bottom-up assessment according to our ESG scoring process that is informed by best practice industry frameworks such as the Sustainability Accounting Standards Board Materiality Map.

Relevance to Harbour portfolios is measured by both company size in terms of market capitalisation as well as total investment holding.

All other engagements are either conducted on a systematic basis (e.g. Corporate Behaviour Survey) or as issues arise and are therefore prioritised accordingly.

Collaboration

Harbour is open to working with others in the industry to amplify our influence when engaging with companies or policymakers. Given each engagement differs in the nature and context of the situation, our decision whether to collaborate will be assessed on a case-by-case basis that we deem most beneficial for clients.

Our method of collaboration is through both formal ESG groups such as the NZ Corporate Governance Forum and the Boutique Investment Group particularly on policy issues as well as informally working with other institutional investors on ad-hoc company level issues (within the confines of legal requirements).

Escalation

We acknowledge that some ESG issues have long term horizons where it can be difficult for companies to enact change quickly. This is why in some cases, multiple engagements over an extended period may be required to achieve the desired change. We therefore monitor the progress of our engagements and may choose to escalate through the C-suite or Chair of the Board level or through voting dissent on relevant AGM resolutions. In more extreme cases of unsuccessful engagement, we may elect to divest from the company completely. Timing on these decisions will vary on a case-by-case basis and can range from a matter of days to months depending on the evidence of response.

Communication

Case studies of Harbour's engagement with issuers are provided to clients on a quarterly basis as part of fund reports and through an annual stewardship summary published in our Sustainability Reports and on the Responsible Investment page of Harbour's website. These examples highlight the objectives, progress and outcomes of some key company engagements and demonstrate our approach in practice. Some details of the engagements may be omitted such as company names reflecting the commercial sensitivity and our philosophy of avoiding the involvement of public media in achieving change.

Proxy Voting

Fiduciary Duty

Proxy duties consist of analysing proxy statements of issuers whose shares are owned by any client (including both Harbour funds and any separate accounts managed by Harbour) that has either delegated proxy voting administrative responsibility to Harbour or has asked for information and/or recommendations on the issues to be voted. Where instructed by Harbour, an external proxy service provider (currently ISS) processes proxy votes on behalf of Harbour solely in the interests of Harbour account clients that have delegated such responsibility. Harbour is open to providing views on proxy votes to clients that request it and can accommodate voting instructions from clients that have their own mandates.

Conflicts of Interest

All proxies received by ISS are voted based upon Harbour's instructions and/or policies, and any instructions received by clients that have their own mandates. As a matter of policy, the officers, directors and employees of Harbour seek to minimise or avoid influence from outside sources whose interests conflict with the interests of clients. Any conflicts of interest will be resolved in the best interests of Harbour clients. However, conflicts of interest may arise in situations where:

1. The issuer is a client of Harbour
2. The issuer is a vendor whose products or services are material or significant to the business of Harbour; or
3. The issuer is an entity participating to a material extent in the distribution of investment products managed by Harbour

Nonetheless, even though a potential conflict of interest may exist, Harbour may vote in opposition to the recommendations of an issuer's management.

In situations where a material conflict of interest is identified between Harbour and an issuer, Harbour may send the proxy directly to the relevant client with a recommendation regarding the vote for approval.

Guiding Principles

In forming our decision on proxy voting resolutions, we promote the following principles to encourage leading practice in ESG management. However, each resolution is assessed on a case-by-case basis and there may be circumstances where our vote deviates from these guiding principles. As above, we are open to providing notice of our proxy voting to clients that request it.

- Board composition: The Board should comprise a majority of independent directors, subject to them contributing valuable skills and experience, with an adequate level of diversity across the Board. The roles of CEO and Chairperson should be separate, and Board sub-committees should be majority represented by independent directors.
- Executive/director remuneration: Companies should report sufficient information on their executive remuneration structure including vesting schedules and performance hurdles on their incentive schemes. A company's equity-based compensation plan should be in alignment with the shareholders' long-term interests. Harbour believes that executive compensation should be directly linked to the performance of the company. Harbour evaluates plans on a case-by-case basis by considering several factors to determine whether the plan is fair and reasonable. Director fee assessments should be benchmarked to an appropriate peer set that covers considerations such as geography, industry, complexity and size of the business.
- Climate change: Companies should be transparent and provide disclosure on their emissions metrics and targets and how they plan to meet them especially if they are materially exposed to the effects of climate change.
- Human rights: Any material human rights risk identified by a company should be properly assessed and reported to stakeholders with appropriate action taken to mitigate any incidence of labour abuse or human rights violations.

Process

Harbour understands that proxy voting decisions may affect the value of shareholdings (both positively and negatively). Therefore, Harbour will attempt to process every proxy it receives for all domestic and foreign securities across annual and extraordinary shareholder meetings. This is facilitated through both research and proxy execution services provided by a proxy advisor (currently ISS).

The following describes the standard procedures that are followed with respect to carrying out Harbour's proxy policy:

1. The relevant Harbour analyst will review resolutions and provide voting instructions for the company in question.
2. In determining how to vote, Harbour's analyst and relevant portfolio manager(s) will consider the General Proxy Voting Guidelines set forth above, their in-depth knowledge of the company, any readily available information and research about the company and its agenda items, and any external recommendations made by independent third-party providers of proxy services.
3. Harbour is responsible for maintaining the documentation that supports Harbour's voting position. Such documentation includes, but is not limited to, any information provided by independent proxy service providers, and, especially as to non-routine, materially significant or controversial matters, memoranda describing the position it has taken. Additionally, this may include documentation obtained from the research analyst, portfolio manager and, where relevant, legal counsel.
4. After the proxy is completed but before it is returned to the issuer and/or its agent, Harbour may review those situations including special or unique documentation to

determine that the appropriate documentation has been created, including conflict of interest screening.

5. Harbour will use its best efforts to send the proxy vote to ISS in sufficient time for the vote to be processed.
6. Harbour will record the vote decisions in both soft and hard copies, noting the rationales for any contentious resolutions, particularly those that are against management and/or proxy advisor recommendations.
7. Compliance will investigate any instances where these procedures have been breached or any evidence that they are not being followed. Based upon the findings of these investigations, Compliance, if practicable will recommend amendments to these procedures to minimise the likelihood of the reoccurrence of non-compliance.

Securities lending

Some Harbour funds have the capability to lend securities to a borrower via a lending agent. The primary purpose of this is to generate additional revenue for the end investor. One of the consequences of lending securities is the transfer of voting rights to the borrower who would pass these onto the end buyer after completing the short sale transaction.

Harbour's approach to securities lending is informed by our responsibility to act in our clients' best interests and weigh up the relative benefits of revenue from lending against retaining voting rights. This is assessed on a case-by-case basis acknowledging that each company's voting situation can be nuanced with resolutions that are more or less contentious.

Where we deem the long-term value of exercising our voting rights to outweigh the revenue from security lending, we may recall stock on loan to ensure we have the ability to vote, though there is a chance that recall may not be possible.

It is important to note that at any one time, securities lending would only comprise a small proportion of the total portfolio as well as proportion of shares at the security level, with the vast majority of securities/shares available to be voted on, consistent with our philosophy on active ownership. There may be other risks associated with securities lending and these are outlined in the Fund disclosure documentation.

Communication

A history of Harbour's voting for contentious resolutions (such as those against management and/or proxy advisor recommendations) is provided to Harbour's internal risk committee along with documented rationale to explain the decision. Aggregate voting statistics are provided to clients quarterly, summarising the total number of resolutions voted and the proportions that are in favour of management or the proxy advisor's recommendations. Furthermore, a record of all voting across Harbour funds is available on the Responsible Investment page of our website.

We have also undertaken to consult with clients, where so desired by the client, prior to voting on any contentious issues or issues that may attract widespread publicity.

Policy Review

The information provided has been prepared from sources believed to be accurate and complete as at the date of issue. This policy is reviewed annually or more frequently if required, reflecting the evolving nature of Harbour's stewardship approach. As such this policy is subject to change at any time.