

ECP

Board Engagement Guide



Redefining
Active Investing
ecpam.com

Suite 5, Level 3
343 George Street
Sydney NSW 2000

T: +61 2 8651 6800
F: +61 2 8651 6899

ABN: 26 158 827 582
CAR: 44198
AFSL: 421704

About

This guide outlines our stewardship responsibilities toward the delivery of sustainable, long-term value to our clients. As a long-term investor, we seek to enhance long-term investment returns by improving and fostering our underlying investments' corporate value and sustainable growth through constructive engagement, based on our in-depth knowledge of the companies and their operating environment.

About Continued

Introduction

Overview

At ECP, we are long-term investors of quality-growth companies. As we see ourselves as business owners, and not share traders, we focus our discussions on the long-term sustainability of the business.

Our approach aims to understand the decisions by the board within their operating environment and the long-term strategic approach to navigating into an uncertain future. Discussions are focused on the context rather than the circumstance or the matter.

“At ECP, we think the only way to grow wealth that is resilient and sustainable, is to invest money in a careful, considered and committed way – we call this ‘active’ investing.”

At ECP, we believe engagement with our companies benefits both the company and shareholders; and through dialogue with our investment companies, we believe we can jointly accomplish more than through proxy voting alone.

Objective

ECP’s investment strategy focuses on Quality Franchise’s – companies that we deem to be investment grade. This process means our portfolio companies are amongst the highest quality operators, and as such we expect good corporate governance to be maintained.

Our investment process maintains that the corporate governance of our investments aligns with our long-term interests and those of our clients. This guide provides a framework for our engagement and provides clarity around our expectations from the board in respect of constructive dialogue and information sought.

Corporate Governance

ECP believes that the board is responsible for governing, not managing the organisation. The board are the servant leaders of shareholders and are held accountable to all stakeholders (both internal and external).

The board’s job is to ensure the organisation achieves strategic goals and conducts itself with honesty and integrity in order to carry out its leadership role. Further, we expect that a board strike an appropriate balance between the short and long-term, as well as between the social, environmental and economic impacts of the organisation.

About Continued

Responsible Investment

Sustainability

It is the board's responsibility to ensure their organisations are sustainable — that they can meet the challenges of the present without compromising their ability to meet the challenges of the future.

ECP believes that ESG factors can have a material impact on the long-term outcomes of investment portfolios and the assets in which we invest, and subsequently, we believe our investment companies need adequate corporate governance in respect to these factors.

PRI

ECP became a signatory to the United Nations-backed Principles for Responsible Investment Initiative (PRI) in 2016. We believe that environmental, social and corporate governance (ESG) factors can have a material impact on long-term investment outcomes.

We are committed to applying the principles in our investment processes, and as such, we will exercise our voting rights and undertake engagement on ESG issues. This falls in line with our Responsible Investment, Active Ownership and Voting Policies.

“Good corporate governance is vital to sustainability. we believe engagement on sustainability issues will have a positive impact on our investment results and on society.”

At the heart of the PRI is the premise that investors have a duty to act in the best long-term interests of their beneficiaries; this means taking into account environmental, social and governance factors.

As part of our commitments, we will engage with listed companies on environmental, social and governance (ESG) issues. The core principles that relate to this guide include -

PRI 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

PRI 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

PRI 5 We will work together to enhance our effectiveness in implementing the Principles.

About Continued

Sustainable Competitive Advantage

The core of the ECP investment process relates to a firm's Sustainable Competitive Advantage (SCA). For any of our investment companies, to be deemed a Quality Franchise requires a strong competitive advantage that is sustainable over the long-term.

For a company to maintain its SCA, the board needs to ensure that all stakeholder relationships, including customers, suppliers, shareholders, employees, among others, are treated with respect and maintain a level of trustworthiness. Without adequate considerations for all stakeholders, economic success will be impacted, in time.

For us, understanding the relationships between the board, individuals, the organisation and various stakeholders is key to good corporate governance and the reliability of their SCA. For us, understanding the strategy and all the interdependent elements (See Annexure A) of the governance framework is a core focus for our engagement.



Engagement

Application

Why & When We Engage

At ECP, engagement with our companies benefits both shareholders and companies alike. For us, speaking directly with the board allows us to better understand the long-term strategy, risk, and governance practices. For our investment companies, they may benefit from understanding the interests and concerns of long-term shareholders. While some may argue that this is adequate through proxy-voting, we do not believe this is an adequate process as it does not provide adequate insight into our values and beliefs.

Attendance

While we do not expect all members of boards to be in attendance, we prefer to have more than one member of a board in our discussions. We would imagine the board would select the most appropriate board member to attend a meeting with ECP, and that adequate time and preparation by both parties prior to the meeting occur.

At ECP, we have a flat organisational structure which means that anyone of our investment team could be present for a meeting with the board. As we are a quality-growth manager, we are sector agnostic, and as such we do not benchmark the quality of management within a particular industry, we benchmark them against best practice within the stage of their firms life-cycle.

Materials

We do not expect our engagements to be cumbersome on board members and as such we usually would not require any pre-prepared materials or agendas. When we schedule an engagement, we will outline key areas of focus for our meeting and will ensure engagements occur on a timely and respectful manner. In certain instances, we may request materials or documents when appropriate.

Types of Engagement

While engagement is not a common occurrence, there are three types of engagements we typically will engage in:

Strategy	When we seek to understand the firm's long-term strategy. The key focus for these discussions is to firm up our conviction. As a long-term shareholder, we need to ensure we remain committed through times of turbulence.
Event / News	There may be times where unusual events or newsworthy items need for us to understand the boards perspective, These may include voting or ballots, or material (unexpected) happenings.
Pillar / Topic	The focus for these engagements is within our governance framework. These types of engagements focus on ESG considerations and other board-specific roles. These may include composition (skills/diversity), performance, risk, stakeholder relations, etc. <u>See Annexure A.</u>

Understanding

Governance Framework

ECP approach corporate governance in a holistic manner. We have underlying values that are required to be upheld for good corporate governance in our investment companies. Corporate governance involves rules, relationships, systems and processes for exercising and controlling authority in organisations — balancing performance and compliance.

Each of the underlying fractions of an organisation is interdependent on each other, and the board needs to ensure that the appropriate governance action, structures, or procedures are upheld. For us, organisational trustworthiness is set from the board and stems from strong ethics and a values-based decision-making framework.



Understanding Continued

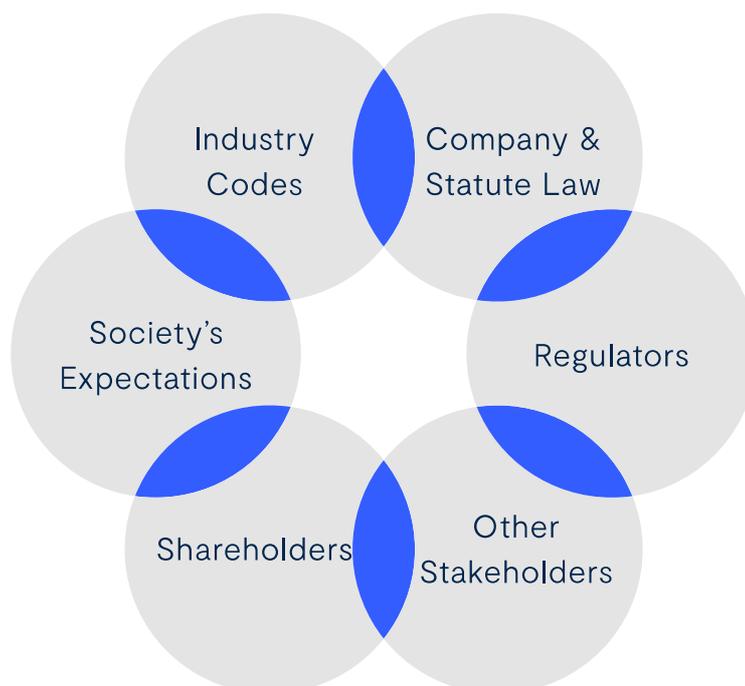
Director's Environment

We understand that each company is different from the next, and the board must set their own governance practices that are appropriate for their organisation. We seek to understand the hows and whys of this and look to ensure that all stakeholders have been appropriately considered.

Within these bounds, we seek to understand the culture that the board has set, as the culture guides decision-making at every level of an organisation. Ensuring that the board sets the 'tone from the top', we want to understand these dynamics and how they may flow on to the company.

As part of our due diligence, discussions with the board give us an indication that the board are fully aware of their environment, and that there is strong communication with the CEO/MD and management. For many companies, a disconnect between board and management can have negative effects over time.

Further, within their environment, we seek to fully understand the boards perspective of how the future will evolve and how they intend to navigate through these uncertain waters. A fully engaged board and one that recognises future challenges and opportunities are paramount.



Understanding Continued

6 Pillars of Governance

At ECP, the following 6 pillars frame our engagement on governance issues. Each type of engagement will draw upon elements of the below and will provide the company understanding to how we assess a board's corporate governance.

Board



The board is responsible for governing, not managing the organisation. The board's job is to ensure the organisation achieves strategic goals and conducts itself with honesty and integrity in order to carry out its leadership role. For us, the culture of the board is paramount, as it guides decision making at every level of the organisation.

Structure



Hard structures need to be clear so that there is accountability, performance evaluation, and strategic direction. Typical board structures are key, but, for us, it's more important for a diversity of skill/experience; an independent mindset; cognitive diversity; and a willingness to question and challenge. A key component of this is the dynamics within.

Sustainability



Boards are guardians of the long term, sustainable value and longevity of their organisation. We expect that a board strike an appropriate balance between the short and long-term, as well as between the environmental, social, environmental (ESG) and economic impacts of the firm. Board's must be aware of this to ensure sustainable outcomes.

Strategy & Risk



The board is not a passenger but an active participant in the process. Risk and strategy are interrelated, and the culture around this must permeate the organisation. We do not expect a board to eliminate or minimise risk. Rather, it is to interpret how much risk is appropriate given the organisation's capacity. Their role is to ensure the organisation will achieve its objectives without excessive or inappropriate risks.

Remuneration



Boards need to be satisfied that organisational capabilities and resources are aligned with the strategic direction. To achieve this, remuneration and compensation policies must be structured fairly to promote long-term, sustainable value for shareholders. Effective remuneration will foster a culture where knowledge and skills nurtured and developed over time - this delivers sustainability.

Society



Businesses operate within the framework of society and must meet the expectations and the ethical standards of that society. The behaviour and treatment toward stakeholders (internal and external) impact the longevity of operations. We maintain that our investment companies provide strong stewardship within their local communities, beginning with direct stakeholders.

Contact

Please visit www.ecpam.com for more details regarding our investment philosophy. If you have any questions regarding our engagement practices, please contact investments@ecpam.com



Annexure A

