

Engagement and voting rights policy

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Contents

1. INTRODUCTION.....	3
2. GENERAL PRINCIPLES	4
3. MONITORING OF INVESTEE COMPANIES	5
4. DIALOGUE WITH INVESTEE COMPANIES AND COLLABORATION WITH OTHER SHAREHOLDERS	5
5. VOTING RIGHTS	7
6. CONFLICTS OF INTEREST	8
7. DISCLOSURE.....	9

1. Introduction

Legislative decree 10 May 2019, n. 49 (hereinafter "Decree") transposed Directive (EU) 2017/828 (so-called SHRD II) which amends Directive 2007/36/EC, introducing new measures to encourage the long-term commitment of shareholders. In general terms, SHRD II is aimed at improving the governance of listed companies through greater and more conscious involvement of shareholders in corporate governance, in the medium and long term, and the facilitation of the exercise of their rights. In more detail, SHRD II provides, among other things, transparency obligations aimed at promoting the commitment and long-term orientation of institutional investors (insurance and pension funds) and asset managers (collective managers and individuals) in investing in European listed companies and ensuring adequate information flows in the contractual relationship between asset managers and institutional investors. These rules were implemented in Legislative Decree no. 58 of 24 February 1998 ("TUF"), Part IV, Title III, Chapter II, Section I-ter which deals with the transparency obligations of institutional investors, asset managers and consultants on voting matters. In order to implement the regulatory changes introduced, Kairos Partners SGR S.p.A. (hereinafter also the "SGR" or the "Company"), as an asset manager - category to which the SGR belongs according to the definition given by the TUF - is required to adopt and communicate to the public a Commitment" which describes the ways in which commitment as a shareholder is integrated into one's investment strategy. In particular, this policy, pursuant to art. 124-quinquies of the TUF, describes "the methods with which they monitor investee companies on significant issues, including strategy, financial and non-financial results as well as risks, capital structure, social and environmental impact and corporate governance, communicate with the investee companies, exercise voting rights and other rights attached to the shares, collaborate with other shareholders, communicate with the relevant stakeholders of the investee companies and manage current and potential conflicts of interest in relation to their commitment".

The SGR has also adopted a methodology for selecting financial instruments that takes into account sustainability risk and environmental, social and governance factors (so-called "Environmental, Social and Governance factors" - ESG). The SGR believes, in fact, that these factors influence the performance of portfolios in the long term and that the application of ESG criteria contributes to mitigating sustainability risk. This policy of commitment and exercise of voting rights of financial instruments is therefore configured as an evolution of the SGR's commitment towards greater financial and non-financial sustainability of its investments also in light of the strengthening of the European regulatory framework in sustainability matter which, with Regulation (EU) 2019/2088 (so-called SFDR - "Sustainable Finance Disclosure Regulation"), introduces obligations aimed at greater information transparency on the part of intermediaries, as well as constraints for the assessment and management of sustainability.

The SGR does not carry out specific engagement activities with reference to the financial instruments held on behalf of customers in the context of investment services (individual management, consultancy and reception and transmission of orders), nor does it have the right to vote in this context.

These guidelines are reviewed periodically, having as reference not only the evolution of the regulations and principles of corporate governance of companies, but also the experiences gained following the actual methods of exercising the right to vote, with particular reference to the quality of information, any immobilization of the securities and the costs incurred. The administrative and control bodies of the SGR are notified of this audit activity.

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2. General Principles

The SGR adheres to the following principles in the analysis of the various corporate resolutions, with the awareness that corporate governance practices may vary depending on the laws and best practices adopted by the respective countries of origin in terms of corporate governance. The evaluation of corporate governance practices must also take into account specific factors of the company being analysed, with specific reference to its size and operating context. Particular attention must be paid to the examination of the agenda of extraordinary meetings.

The SGR is against the existence of devices that circumscribe, weaken or limit the rights of shareholders.

For the purposes of investment choices and the behaviors and actions to be adopted by the SGR, it will be based on the following principles:

- companies have the obligation to protect and promote the interests of their shareholders by adopting and applying suitable procedures to ensure effective consultation of the latter on the most important issues;
- all shareholders holding shares with voting rights must be able to participate in general meetings, regardless of the quantity held, and must have the right to ask questions and vote in person or by proxy;
- compatibly with the respective national laws, companies must facilitate the voting of their shareholders also through postal voting;
- all resolutions on the agenda must be clearly documented and well identified, avoiding as much as possible consolidation between distinct topics, in order to allow shareholders to develop their own autonomous and independent opinion on the different resolutions. In this regard, it is important that shareholders are informed in advance about the various items on the agenda. Shareholders are not required to vote in favor of resolutions that may result in a disadvantage or dilution of their voting rights.

The companies must be managed by a validly constituted Board of Directors, whose work is supervised, in countries whose legislation provides for it, by a Board of Auditors or a non-executive Supervisory Committee. The SGR is against the practice of voting the members of the Board of Directors on a rotating basis every year (so-called Classified Boards). Directors must be fully elected by shareholders, following best practices developed locally. In this regard, particular emphasis must be given to the quality of the information provided by the companies, which must allow shareholders to form an opinion regarding the competence and experience of the individual names proposed, any positions already held by the latter in other Boards of Directors, and possible conflicts of interest. The Board of Directors and, where applicable, the Board of Statutory Auditors (or the Supervisory Committee), must act on behalf and in the interests of all shareholders.

The auditing of the accounts must be entrusted to specific external and independent auditing firms, subject - both at the time of appointment and at any renewal - to the approval of the shareholders. Fees paid to auditors for any type of service rendered must be specified in the annual reports. It is desirable that audit firms are not used to provide consultancy services to company management.

The SGR believes that an objective, rigorous and efficient internal control system contributes to increasing investor confidence and the transparency of the information made available to them. The control system must be suitable for identifying and evaluating all potential risks faced by the company, including sustainability risk, based, as far as possible, on internationally consolidated standards and principles. The Board of Directors must verify the adequacy of the internal control system, placing particular emphasis on those relating to the financial and accounting situation.

The financial statements, annual reports and reports of the company's auditors must comply with high quality standards, with reference to the transparency, clarity and completeness of the information contained therein, with a view to providing a faithful representation of the economic, financial and assets. This representation must be aligned with the best accounting and corporate governance practices of the country in which the issued financial instruments are predominantly traded. In principle, the amount of dividends paid must be covered by the operating profit. Any buyback of own shares or reduction of capital must be clearly illustrated and detailed.

The resolutions concerning statutory amendments must be examined on a case-by-case basis with reference to the general principles illustrated above, in relation to the protection of the rights of the shareholders, the possible impact of the amendments in question on the value of the shares and the completeness and transparency of the supporting information.

3. Monitoring of investee companies

Any initiative relating to corporate shareholdings held by virtue of collective management activities must be carefully examined in light of the general principles outlined above.

The SGR has adopted and updates this Policy, which specifies the methods through which the Investee Issuers are monitored, the intervention strategy, the approach to collective engagement, as well as the strategy adopted regarding the exercise of voting rights, including by proxy or through voting consultancy services. In particular, the SGR adopts a "targeted" approach to corporate governance, favoring - in application of the principle of proportionality - monitoring of medium/long-term investments in relation to the so-called Participated Issuers. "significant".

The SGR carries out active and continuous monitoring of Significant Issuers in order to be able to act proactively to identify problems in advance and minimize potential losses in value with the aim of increasing the value of investments over time in order to protect the value of the assets managed by it in the exclusive interest of the subscribers of the funds themselves.

The monitoring activity mainly focuses on issues such as strategy, financial and non-financial results as well as risks, capital structure, social and environmental impact and the corporate governance of issuers. The monitoring of Significant Issuers carried out by the SGR occurs according to one or more methods, with specific periodicities. Among these are:

- the analysis of public documents, including corporate data, through for example consultation of the financial statements, periodic reports and any other type of corporate document published by the issuer;
- meetings on specific needs and participation in events (roadshows, webcasts and/or conference calls);
- participation in issuers' meetings;
- the analysis of company activities from an ESG (Environmental, Social and Governance) point of view;
- the analysis of company documents and other documents provided by proxy advisors, relating to points subject to a vote at annual shareholders' meetings;
- external assistance from the Corporate Governance Committee present within the Trade Association in order to monitor significant corporate events

With regard to ESG issues, the SGR's monitoring may also include periodic meetings (organised by the issuer or third parties) or requests for data for the attention of specific company figures as well as the organization of meetings or conference calls. Finally, monitoring can also take place through the establishment of an active dialogue with representatives of the Significant Issuers.

4. Dialogue with investee companies and collaboration with other shareholders

The SGR's engagement with listed issuers helps to protect and guarantee their value in the long term, constituting one of the appropriate measures to safeguard the rights of investors, as well as, through voting in the meeting, one of the ways in which they are exercised, in the interest of the latter, the rights inherent to the financial instruments pertaining to the Funds managed. The SGR believes that dialogue with issuers is a key element for the implementation of a responsible and sustainability-oriented investment policy. The dialogue with issuers therefore represents, together with their ESG analysis, a fundamental part of the investment management process of the managed Funds; this activity is therefore carried out continuously.

The SGR evaluates from time to time the circumstances that make an engagement activity appropriate and periodically evaluates the results of this approach. On the basis of these circumstances, the SGR first of all evaluates whether and how to discuss with the competent members, including minorities, of the administration and control bodies, or with the subjects appointed by them, of the participated listed issuer, any concerns or problems encountered in monitoring that issuer.

The SGR intervenes, for example, when there are significant concerns regarding the strategy, financial and non-financial results, risk management, including sustainability risk, the capital structure of the participated listed issuer, its governance (for example regarding the election, the optimal qualitative and quantitative composition - also in terms of diversity - of the corporate bodies, remuneration), as well as the corporate culture or ethics or the management of environmental and social issues (such as the protection environment, social responsibility and treatment of workers, respect for human rights, the fight against active and passive corruption).

As part of the intervention and engagement activities, the SGR asks the listed issuers to ensure that any information that could compromise the possibility of trading the shares of said issuers (so-called "market sounding" and "inside information") is not communicated without the prior consent of the SGR.

Engagement activities include, but are not limited to:

- organization of meetings with the management and investor relations structures of the listed issuer to specifically discuss the problems encountered;
- clarification of concerns through the issuer's consultants;
- meeting with the competent members of the administrative and/or control bodies.

The meeting can take place in the form of direct dialogue in which the SGR represents the vision of the market to the members of the corporate bodies of the issuers or indirect dialogue with exchange of information between the participating parties.

If the dialogue with the corporate bodies is not satisfactory, the SGR evaluates whether to continue with its aim, also considering the opportunity to involve other investors: in some circumstances, cooperation with other investors proves to be the most effective method for carrying out engagement.

For example, it is appropriate to exercise collective engagement in the event of significant corporate events or issues of public interest (such as serious economic or sector crises), or if the risks identified could compromise the ability of the participated listed issuer to continue its business, paying particular attention to the regulations regarding concerted action.

If the corporate bodies do not react constructively, the SGR will verify the possibility of involving other institutional investors, for example:

- intervening jointly on particular issues;
- making a public statement before or at the annual general meeting or an extraordinary general meeting;
- presenting possible resolutions at shareholder meetings;
- requesting the calling of a meeting or the integration of the agenda of a meeting already called to submit to the shareholders any specific initiatives such as, for example, those aimed at making changes to the corporate bodies.

The SGR generally participates in all collective initiatives carried out by Assogestioni. The collective commitment through Assogestioni and the presentation of candidates for election to independent minority members of the corporate bodies of the participated listed issuers, through the Assogestioni lists typically represents a continuous, effective and constructive method of interaction with the participated issuers.

The principles and criteria for identifying candidates are established by Assogestioni's Corporate Governance Committee. The Committee is responsible for identifying the professionalism, integrity and independence requirements of the candidates, as well as identifying the conditions of ineligibility and incompatibility.

5. Voting Rights

The policy to be followed for the exercise of the right to vote is based not only on the rules reported above, but also on the following specific principles:

- for the purposes of voting rights, the SGR aggregates the shareholdings relating to the Funds established by it, as well as those managed by delegation for which the delegating party has also delegated the exercise of this right, in accordance with current legislative and regulatory provisions;
- the SGR does not exercise the voting rights inherent to the financial instruments pertaining to the Funds managed if said instruments are issued by directly or indirectly controlling companies;
- The SGR does not delegate to companies in its group, or to representatives of these, the exercise of the voting rights to which it is entitled, unless they are other asset management companies. In any case, the delegated person must be given explicit instructions for voting, in accordance with the interests of the participants.
- In the case of management delegations granted to group or third-party management companies, the voting right relating to the shareholdings contained in the managed assets and Funds may be exercised by the delegated party, subject to authorization from the SGR in this regard.
- The SGR will formalize and keep specific documentation showing the decision-making process followed for the exercise of voting and other faculties inherent to the financial instruments pertaining to the Funds.
- The SGR will not be tied to voting or blocking unions.
- The SGR will provide information, upon written request of the participant, of the behavior adopted at the meeting.

The SGR may however decide not to exercise the right to vote in the presence of one or more of the following circumstances:

- the shares held by the SGR refer to short-term investments in relation to which the possible successful outcome of the meeting would not have time to be reflected in the management results;
- the value of the shares held by the SGR, although significant compared to the issuer's assets, is negligible or in any case not relevant when compared to the overall assets of the individual Funds that hold them in their portfolio;
- it is not considered appropriate to block the stock for the period preceding the meeting;
- the shares held by the Funds are subject to securities lending transactions;
- any other condition that makes the exercise of the right to vote unfavorable.

In order to apply the principles described above, the SGR adopts the following operating methods.

The Investment Department monitors, also through the Operations Unit, corporate events connected to the financial instruments present in the portfolio of Funds managed through information from the Custodian Bank, Xchanging Italy S.p.A., use of Info Providers, as well as communications received from the issuing companies.

Decisions regarding corporate actions, or in any case connected to corporate shareholdings held, which may prove necessary or appropriate will be adopted in compliance with the principles of protection of the economic and legal interests of the investors of the managed Funds.

In particular, once the event has become known, or the opportunity or need to undertake a specific action, deriving from the corporate share held, has been assessed, the individual manager concerned, assisted by the Analyst and ESG Team and the Operations Unit, will proceed to find all the useful information, informing the Investment Director.

In particular, the individual manager or the Analyst and ESG Team express their interest:

- sending a specific email to the CIO (with a copy of the Compliance and Operations units);
- indicating in the same email:

- a) the reasons;
- b) the date of the meeting;
- c) the agenda of the meeting;
- d) voting instructions;
- e) the intention to participate directly or by delegation (in the latter case the Operations Unit will inform the other recipients regarding the exercise of the delegation).

The CIO, based on the above information, will authorize or deny participation and the exercise of the right.

The administrative activities necessary for participation in the meeting will be carried out by the Operations Unit.

The behaviors to be adopted at the meeting are decided collectively by the management structure of the SGR - in compliance with the internal procedures regarding conflict of interest - during the Investment Committee, in advance of the meeting, or, where this is not possible, are decided in agreement between the Investment Director and the individual managers of the Funds involved. In the latter case, appropriate information will be given during the first useful session of the Investment Committee following the meeting.

For decisions regarding participation in public takeover offers, or other operations of an extraordinary nature, the vote will be expressed with a view to maximizing the value of the investments of the managed Funds and of the investors, taking into account the risks associated with participation, including sustainability risk.

The person taking part in the meeting:

- exercises the right to vote in compliance with the decisions taken by the SGR;
- may express a vote different from that defined by the SGR if particularly important facts have arisen relating to the items on the agenda which were not known at the time the decision was taken, and such as to suggest that the SGR itself, having known them, he would have shared the decision to vote differently.
- in the event of a vote that differs from that defined by the SGR, he must promptly inform the Investment Director of the decision taken. The latter will inform the Investment Committee during the first available session, indicating the reasons that led the person participating in the meeting to change the vote.

The SGR may, however, provide that the participant in the meeting, when making the voting decision, will under no circumstances be able to express the vote differently than what was agreed.

Compliance with the procedure described in this document is verified firstly by the Investment Director and, subsequently, by the control functions of the SGR as part of their controls.

If the Investment Director finds himself in a situation of conflict of interest or is absent and/or prevented from carrying out the procedure described above, he must be replaced by the CEO.

6. Conflicts of Interest

In order to ensure that the right to vote is always exercised in the exclusive interest of the investors, the SGR, in its assessments, must always consider the situations in which potential conflicts of interest exist, in accordance with what is described in the Policy on conflicts of interest adopted by the SGR.

Therefore, the SGR does not exercise the voting rights inherent to the shares pertaining to the managed assets issued by companies directly or indirectly linked to it by a control relationship or in relation to which the companies of the group to which the SGR belongs nominate or designate one or more members. of the corporate bodies, nor does it delegate to group companies or their representatives the exercise of the right to vote on the shares pertaining to the managed assets.

In any case, the SGR ensures that the exercise of the voting right by the delegated party is carried out in accordance with the interests of the investors.

7. Disclosure

The SGR publishes this Policy in the ways and within the times established by current regulations, through, among other things, publication on its website.

The SGR also provides transparency on an annual basis of the methods of implementation of the Commitment Policy by including a general description of voting behavior, an explanation of the most significant votes and the use of the services of consultants on voting matters through a specific document that will be available on the website Internet of the SGR.

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