



## **Integration of Shareholder Engagement in Prusik's Investment Strategy**

Prusik Investment Management invests in equities in the Asia Pacific ex-Japan region across several funds with differing strategies. In order to fulfil our fiduciary duty as stewards of our clients' assets, engaging with the management of our portfolio companies and potential investments is a central part of our investment process.

Notably, corporate governance standards in Asia are not yet on par with the UK and other developed markets. This means that a developed market framework is not always suitable when evaluating investments in Asia. However, we believe we have established a robust approach for assessing corporate governance, which places engagement with management and the discussion of strategic issues at its core.

For example, it is important for us to understand how management reinvest capital into the business. This may include discussions around threshold and target returns, long-term strategic objectives and whether investments are sufficient in size or if there is a risk of underinvestment. Underinvestment might flatter profits and cash flows in the short-term but is likely to undermine a company's competitiveness in the long-term. We also place great emphasis on identifying and understanding related party transactions for companies, which is a common phenomenon in Asia and can be a source of corporate governance concerns.

Importantly, we have an absolute return approach to investment. This means that every company we own is due to its own merits – we are not forced to own companies just because they are in an index. In addition, we invest in companies that have sustainable competitive advantages in the industries they operate in, allowing them to provide value for their customers as well as their employees and shareholders. In short, our investment philosophy has a structural bias towards companies with good corporate governance. To firstly identify this, and second to ensure this is maintained throughout the holding period of our investments, engagement with management is and will remain central to our investment process.

## **Monitoring and Dialogue with Investee Companies (Strategy, Financial and Non-Financial Performance Risk, Capital Structure and ESG)**

Our investment team conducts hundreds of meetings with both our portfolio companies and potential investments both on the ground in Asia, as well as in meetings in London and conference calls. During these meetings we discuss a broad range of issues including, but not restricted to, strategies for long-term growth, capital allocation, financing plans and corporate governance best practices. We also address social and environmental issues, focusing on areas where we believe the greatest areas of concern are. The breadth and depth of our Sustainability / ESG engagement has increased now that we have finalised our formal Sustainability / ESG policy which can be found on our website [www.prusikim.co.uk](http://www.prusikim.co.uk).

We aim to focus on long-term measures and encourage companies to focus on creating the most amount of value for all stakeholders as opposed to short-term profit maximisation that endangers the long-term health of the business. A good example of this is that even though one of our strategies focuses on equity income investing, we would always encourage a portfolio company to cut or suspend its dividend if that meant preserving the long-term health of the company, as opposed to continuing to pay the dividend (which might benefit short-term returns) if that would place the finances of the company under strain.

## **Escalation**

Although typically we only invest in companies that we already agree with in matters of strategy and governance, there will be times when we believe that our invested companies have room for improvement. In such instances, our first step is to discuss our concerns directly with management. If management do not provide a satisfactory response or fail to respond to our concerns, we will then assess whether the issue is significant enough to change the investment case. If the issue is deemed significant enough to change the investment case, we would then make a decision whether to continue to hold the company and vote against the measure or to sell our shares in the company entirely.

## **Voting Policy and Reporting**

We are committed to having a 100% voting record. Although we use a third-party provider, ISS, to assist in our decision making, we also research the issues involved ourselves. While it is less common for us to vote against the board as we typically invest in companies where we believe we are aligned with the company, we are comfortable voting against management if their actions and objectives do not match up with what we believe to be best practice. We often debate controversial votes with management and hope to keep an active and open dialogue with companies about what our voting intentions are. We provide an annual disclosure which details our voting behaviour, an explanation of our most significant votes and where we voted against the advice of our proxy advisor.

## **Cooperation with Other Shareholders**

Historically we have not had active cooperation with other shareholders, although we remain open to doing so. However, it is worth noting that typically our holdings are small in relation to the overall size of our invested companies which may make this level of engagement less likely.

## **Communication with Relevant Stakeholders of Investee Companies**

We do not typically communicate with staff, customers or suppliers of the firm directly. However, we research companies' impact on each of these areas via other sources as part of our investment process. For example, we research how companies behave with regard to their other stakeholders.

## **Conflicts**

Prusik has strict rules in place to prevent and monitor potential conflicts. We have a Personal Account Dealing Policy that prevents employees or their families from trading in stocks in Asia which the fund might buy. We also monitor issues such as, but not limited to, inducements, outside business interests, prioritisation of clients and execution of orders. We restrict the size of our funds to maximise our ability to generate returns and have demonstrated our commitment to put our clients' long-term interests first by doing this.

March 2021