

# Shareholder Rights Directive – Stewardship and Engagement Policy

## Introduction

The European Union Shareholders Rights Directives I & II (EU SRD I & II) establishes requirements for asset managers (among other parties such as issuers, proxy advisers, institutional investors, intermediaries etc.) about exercising of shareholders rights attached to voting shares in general meetings of investee companies that are either registered or traded on a regulated market in the EEA. Since Brexit, for a UK firm, the territorial scope also includes investee companies that are either registered or traded on a regulated market in the UK.

FCA implemented the EU SRD II through SYSC 3.4 and COBS 2.2B. As per the FCA website, “We have introduced new requirements to improve shareholder engagement and increase transparency around stewardship. Asset managers and life insurers will need to disclose and make publicly available, their policies on how they engage with each other and the companies they invest in, and how their strategies create long-term value.”

Lightman Investment Management Limited (the Firm, LIML, Lightman) is a UK MiFID portfolio manager and is accordingly covered under SRD as an asset manager. It is required under COBS 2.2B to comply or explain non-compliance (with reasons).

LIML has decided to comply with COBS 2.2B requirements in a proportionate manner. This Policy provides details of LIML’s Engagement Policy. This Policy has been approved by the Management Committee of the Firm and is reviewed on a regular basis, at least annually. This Policy is also published on the Firm’s website.

The Firm also produces an annual compliance statement and publishes on its website.

## Regulatory Context

Since the financial crisis, the European Regulators believe that there is clear evidence that the current level of ‘monitoring’ of investee companies and engagement by institutional investors and asset managers is often inadequate and focuses too much on short-term returns, which may lead to suboptimal corporate governance and performance.

In its communication of 12 December 2012 entitled ‘Action Plan: European company law and corporate governance – a modern legal framework for more engaged shareholders and sustainable companies’, the European Commission announced a number of actions in the area of corporate governance, in particular to encourage long-term shareholder engagement and to enhance transparency between companies and investors.

Recitals 15 & 16 of SRD II states the following:

*"Institutional investors and asset managers are often important shareholders of listed companies in the Union and can therefore play an important role in the corporate governance of those companies, but also more generally with regard to their strategy and long-term performance. However, the experience of the last years has shown that institutional investors and asset managers often do not engage with companies in which they hold shares and evidence shows that capital markets often exert pressure on companies to perform in the short term, which may jeopardise the long-term financial and non-financial performance of companies and may, among other negative consequences, lead to a suboptimal level of investments, for example in research and development, to the detriment of the long-term performance of both the companies and the investors.*

*"Institutional investors and asset managers are often not transparent about their investment strategies, their engagement policy and the implementation thereof. Public disclosure of such information could have a positive impact on investor awareness, enable ultimate beneficiaries such as future pensioners optimise investment decisions, facilitate the dialogue between companies and their shareholders, encourage shareholder engagement and strengthen their accountability to stakeholders and to civil society."*

In consideration of the above facts, the EU Regulators updated the Shareholders Rights Directive I (SRD I published in 2007) and published SRD II in 2017, with several key amendments and changes implemented through SRD II.

## Comply or Explain

COBS 2.B.5R (Articles 3g(1) of the SRD) requires that a MiFID firm must either:

- (a) develop and publicly disclose an engagement policy that meets the requirements of COBS 2.2B.6R (an "engagement policy"); and*
- (b) publicly disclose on an annual basis how its engagement policy has been implemented in a way that meets the requirements of COBS 2.2B.7R; or*
- (c) publicly disclose a clear and reasoned explanation of why it has chosen not to comply with any of the requirements imposed by (1).*

LIML has decided to comply with SRD's requirement of developing and publishing an engagement policy and annually disclosing its compliance with engagement policy in a proportionate manner.

## Background to the Firm

The Firm is a boutique investment management company focussed on investments in European equities listed on one or more of major European exchanges and regulated

markets. The Firm currently makes all investments through multiple UCITS funds, to which it provides portfolio management service on a delegated basis.

The Firm pursues an investment strategy that expects the investee company's senior management to take relevant actions into unlocking the currently depressed market value of the investee company. The asset universe and the management action requirements for strategy's success makes engagement and voting relevant. The Firm has accordingly created a Proxy Voting mechanism to allow conflict free exercise of voting rights and has included this document on its website to confirm compliance with SRD.

## Territorial Scope:

SRD limits territorial scope of investee companies to those companies whose registered office is in an EEA member state and the shares of which are admitted to trading on a regulated market situated or operating within a member state. Since Brexit, for a UK firm, the territorial scope includes the UK as well. In addition, the FCA has decided to expand the territorial scope of investee companies to outside of the UK and EEA as well, if a UK asset manager holds a position in such a company.

FCA has however allowed flexibility to UK asset managers to pursue different shareholder engagement approaches for different markets. Accordingly, it is not expected that a UK asset manager should follow the same intensity of principles for non-UK and non-EEA investee companies.

LIML has decided to limit its compliance to UK and EEA companies only and on a case-by-case basis (opportunistically) comply for non-UK and non-EEA companies. The Firm considers this proportionate and prudent because the Firm currently manages European fund(s) and majority of investee companies are in the UK and EEA member states such as Germany, France, Italy, Ireland etc.

## Proportionality

As per paragraph 1.14 of PS19-13, the FCA states that it recognises that *"firms should not be expected to exercise stewardship in an identical way, or to the same intensity. Each firm will have a clear and stated purpose, which shapes its offering to clients and beneficiaries. This purpose will drive investment objectives and investment strategy, flowing through to how the firm prioritises its engagements with issuers, how it exercises oversight and challenge, and how it holds issuers to account. To reflect this, our approach is not to be too prescriptive and to allow for different approaches to stewardship to develop over time."*

LIML takes shareholder engagement and stewardship seriously. As stated earlier, it has decided to comply with the obligations. Given the size of firm, resource availability, investment strategy, and size of holdings, the Firm has decided to use proportionality in its engagement policy. Accordingly, the Firm will focus its shareholder engagement on certain

key matters at the investee company through its voting policy and regular dialogue with investee company.

## Significant vs insignificant votes

*As per Recital 18 of SRD II, "Institutional investors and asset managers should publicly disclose information about the implementation of their engagement policy and in particular how they have exercised their voting rights. However, with a view to reducing the possible administrative burden, investors should be able to decide not to publish every vote cast if the vote is considered to be insignificant due to the subject matter of the vote or to the size of the holding in the company. Such insignificant votes may include votes cast on purely procedural matters or votes cast in companies where the investor has a very minor stake compared to the investor's holdings in other investee companies. Investors should set their own criteria regarding which votes are insignificant on the basis of the subject matter of the vote or the size of the holding in the company and apply them consistently."*

The Firm has created the following list of significant and insignificant voting matters:

### **Significant:**

- Remuneration
- Executive Director appointment
- Financial statement approval
- Corporate actions such as M&A, disinvestment etc.
- Dividend policy and approval
- Capital structure changes
- Business plan

### **Insignificant:**

- Appointment of non-executive directors
- Appointment of auditor
- Ratification of supervisory Board recommendations
- Pension policy
- Investee companies where the fund holds less than 2.0% of the NAV

## Proxy voting

The Firm relies on proxy voting for all meetings of investee companies. The Firm uses the services of Proxyedge, a Broadridge proxy voting intermediary to receive all meeting information and voting information and to cast votes in such meetings. The Firm also uses the same entity to monitor that the votes have indeed been cast in line with Firm's instructions.

The Firm relies on recommendations made by Glass Lewis in casting its votes. The Firm has signed up to receive ESG specific voting recommendations from Glass Lewis.

## Engagement Policy

Article 3(g)(1)(a) of SRD II states that “Institutional investors and asset managers shall develop and publicly disclose an engagement policy that describes how they integrate shareholder engagement in their investment strategy.”

COBS 2.2B.6R (Article 3g(1)(a) of the SRD) states that

*The engagement policy must describe how the firm:*

- (1) integrates shareholder engagement in its investment strategy;*
- (2) monitors investee companies on relevant matters, including:*
  - (a) strategy;*
  - (b) financial and non-financial performance and risk;*
  - (c) capital structure; and*
  - (d) social and environmental impact and corporate governance;*
- (3) conducts dialogues with investee companies;*
- (4) exercises voting rights and other rights attached to shares;*
- (5) cooperates with other shareholders;*
- (6) communicates with relevant stakeholders of the investee companies; and*
- (7) manages actual and potential conflicts of interests in relation to the firm’s engagement.*

In line with this requirement, the Firm has developed this engagement policy. This Policy describes Firm’s engagement policy and approach in the following paragraphs:

### 1. Integrates shareholder engagement in its investment strategy

The Firm provides portfolio management services to professional client, generally with respect to assets of collective investment vehicles. The Investment objective of these clients is “to provide long term (in excess of 5 years) capital growth.” The strategy used is to “Invest in undervalued companies with a potential for margin expansion and earnings growth. The strategy has a bias towards investing in companies in mature industries.”

The Firm takes long term positions and invests in Companies where it believes the management can work towards margin expansion and earnings growth, mostly through impending operational momentum.

Further, the Firm’s has also implemented a policy to opt for stock dividend over cash dividend, as part of its long-term investment strategy and stewardship.

### Monitors investee companies on relevant matters, including:

- (a) strategy;*
- (b) financial and non-financial performance and risk;*
- (c) capital structure; and*
- (d) social and environmental impact and corporate governance;*

The Firm regularly monitors its investee companies on several parameters for continued investment holdings through regular dialogues with the investee companies and through review of key publications from the investee companies. The monitoring parameters (either directly or indirectly) cover areas such as CAPEX and OPEX strategy, earnings and expenses changes, ratios such as P/E, P/B, P/S, EPS growth etc. that forms part of a thorough fundamental analysis. The Firm also reviews the Board structure, quality of senior management, corporate governance arrangements in its regular assessments. The Firm considers the GHG emission profile of its investee companies in its decision-making process. The Firm is

a signatory to UN PRI and has its own ESG policy for incorporating ESG factors into its investment decision making process.

*(3) conducts dialogues with investee companies;*

Research analysts and portfolio manager at the Firm regularly speak with Investors Relations and where required senior management at investee companies. Given the size of investments and the size of its own staff, it is disproportionate to speak with senior management or board members alone at every occasion. In addition, the Firm believes that Investor Relations have seen several senior management members and can provide a good long-term view of events that have taken place at the investee company. These communications relate to financial statements, business plans etc.

*(4) exercises voting rights and other rights attached to shares;*

The Firm has developed a voting policy and exercises its voting rights. Due to size of investment team and size of its investments in publicly listed companies, it has decided to currently keep its voting policy simple and support most management decisions. This is also in line with the investment strategy that management actions will result in unlocking of value of investee company. On case-by-case basis, it might consider voting against management action as well.

*(5) cooperates with other shareholders;*

The Firm currently does not have any policy of co-operating with other shareholders. It is not an activist investor.

*(6) communicates with relevant stakeholders of the investee companies; and*

The Firm currently does not communicate with stakeholders of the investee company. It does however reviews developments of key stakeholders such as vendors, customer etc.

*(7) manages actual and potential conflicts of interests in relation to the firm's engagement.*

The Firm manages conflict of interests effectively through implementation of following policies and procedures:

- PA dealing policy restricts holding personal positions against positions held for clients.
- Conflict of interest policy requires prior disclosure any conflict with client or investee company.
- Outside business interest policy requires disclosure of all external positions that an employee can hold.

## Public disclosure

Article 3(g)(1)(b) of SRD II states that “Institutional investors and asset managers shall, on an annual basis, publicly disclose how their engagement policy has been implemented, including a general description of voting behaviour, an explanation of the most significant votes and the use of the services of proxy advisors. They shall publicly disclose how they have cast votes in the general meetings of companies in which they hold shares. Such disclosure may exclude votes that are insignificant due to the subject matter of the vote or the size of the holding in the company.”

COBS 2.2B.7 (Article 3(g)(1)(b) of the SRD) states that

*(1) The annual disclosure must include a general description of voting behaviour, an explanation of the most significant votes and reporting on the use of the services of proxy advisors.*

(2)

*(a) Subject to (b), a firm must publicly disclose how it has cast votes in the general meetings of companies in which it holds shares.*

*(b) A firm 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.*

The Firm publishes its Engagement Policy on its website at [www.lightmanfunds.com](http://www.lightmanfunds.com) and will publish its annual compliance statements on the same website as well.

## Annex I

### Annual Compliance Publication

Firm Name	Lightman Investment Management Limited
FRN	827120
Disclosure period	01/01/2023 – 31/12/2023
Investment Policy	The Firm managed two separate portfolios for one fund group during the period. The investment policy of the two portfolios (a UK UCITS sub-fund and a Luxembourg UCITS sub-fund) is to provide long term (in excess of five years) capital growth. The funds invest primarily in the shares of companies that are domiciled in, based in, or carry out the larger part of their business activities in Europe. The fund maintained a concentrated portfolio of approximately 40-50 holdings, selected at the managers discretion. The manager aimed to invest in undervalued companies with positive operational momentum.
Average <sup>1</sup> size of holding (%)	2.16% of NAV for the WS Lightman European Fund 2.16% of NAV for the Lightman European Equities Fund
Highest single holding (%)	5.58% of NAV for the WS Lightman European Fund 5.39% of NAV for the Lightman European Equities Fund
Lowest single holding (%)	0.01% of NAV for the WS Lightman European Fund 0.01% of NAV for the Lightman European Equities Fund
General voting behaviour (%)	<ul style="list-style-type: none"> <li>– The Firm voted for approximately 88.38% of the ballots it received from its custodian.</li> <li>– The Firm abstained from voting for approximately 1.14% of the ballots it received from its custodian.</li> <li>– The Firm did not vote for the remaining ballots. Reasons for not voting some ballots include timing factors, restrictions on sale required by issuer and missing Power of Attorneys.</li> <li>– In general, the Firm voted in line with the ESG focussed recommendations of Glass Lewis. These recommendations were combined for/against the management/shareholders.</li> <li>– In general, the Firm favoured cash dividend over stock dividend, wherever it received option.</li> </ul>
Most significant votes explained	The Firm has been generally supportive of investee company's management in their proposals with respect to dividend policy, financials, director appointment etc. The Firm has a policy of taking opposing stance on a case by case basis.
Proxy advisors	The Firm used Glass Lewis.



Any other comment	The Firm engages regularly with senior management individuals at portfolio companies to share views on pertinent matters, both ESG and non-ESG.
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Notes:

1. Simple average of all holdings over the holding period

## Annex II

### Disclosure to SRD institutional investors

Firm Name	Lightman Investment Management Limited
FRN	827120
Disclosure period	01/01/2023 – 31/12/2023
How investment strategy contributes to medium to long term performance of assets of fund	<p>Investment strategy of the Firm is to take positions in undervalued companies with strong upside potential through operational momentum and management action. Investee companies might need a few years before their valuation corrects.</p> <p>Further, the Fund has no performance fees and relies exclusively on management fees, which is a function of medium to long term performance the assets of the fund.</p>
Key material medium to long term risks associated with the investments	<p>Key risks are:</p> <ul style="list-style-type: none"> <li>– Currency Risk: As the fund invests in overseas securities, movements in exchange rates may, when not hedged, cause the value of your investment to increase or decrease.</li> <li>– Concentration Risk: The fund may hold a small number of investments and/or invest in stocks with a particular industry, sector or geographical focus. The value of the fund may therefore be subject to large swings (both up and down).</li> <li>– ESG Risk: The Firm may hold positions in companies that are currently improving their ESG profile. In case of any deviations from the improvement path, the ESG profile of the portfolio may be impacted negatively.</li> <li>– Return volatility: The value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and an investor may not get back what they originally invested.</li> <li>– Liquidity: The fund may invest in less liquid securities that are more difficult to buy or sell, sometimes significantly harder, when compared to larger more established securities and more difficult to value which may cause larger short-term swings (both up and down) in the value of the fund.</li> <li>– Counterparty Risk: As the fund may enter into derivative agreements there is a risk that other parties may fail to meet their obligations. This may lead to delays in receiving amounts due to the fund, receiving less than is due or receiving nothing.</li> </ul>

Portfolio composition	The portfolio composition is published monthly through factsheets at <a href="http://www.lightmanfunds.com">www.lightmanfunds.com</a> .											
Turnover and turnover costs	<table><tr><td></td><td>WS Lightman European Fund</td><td>Lightman European Equities Fund</td></tr><tr><td>Turnover ratio:</td><td>94.67%</td><td>178.50%</td></tr><tr><td>Turnover costs:</td><td>0.17%</td><td>0.17%</td></tr></table>				WS Lightman European Fund	Lightman European Equities Fund	Turnover ratio:	94.67%	178.50%	Turnover costs:	0.17%	0.17%
	WS Lightman European Fund	Lightman European Equities Fund										
Turnover ratio:	94.67%	178.50%										
Turnover costs:	0.17%	0.17%										
Use of proxy advisors for the purpose of engagement activities	Glass Lewis for proxy voting. No external support for engagement activities.											
Firm’s policy on security lending	No security lending.											
How the firm makes investment decision based on evaluation of medium to long term performance of an investee company, including non-financial performance	The investment team considers the future cash flows and intrinsic value of an investee company. The team also considers key ratios such as P/S, P/FCF, P/E etc. including analyst predictions. The team also considers non-financial metrics such as GHG emissions, ESG disclosure score etc. in its assessment and monitoring.											
Conflicts of interests with engagement activity and mitigations	No conflict with engagement activities. The Firm invests in portfolio companies for long term and has its interest aligned with long term growth of shareholders and portfolio companies.											

Portfolio turnover has been calculated using FCA Handbook COLL 4 Annex 2 methodology.

Portfolio transaction cost has been calculated as (explicit transaction cost/Average AUM), where transaction cost is calculated as explicit brokerage and taxes.

## Disclosures:

This document is owned by Lightman Investment Management Limited ("Lightman", "we", "us"). Lightman Investment Management Limited (FRN: 827120) is authorised and regulated by the Financial Conduct Authority ("FCA") as a UK MiFID portfolio manager eligible to deal with professional clients and eligible counterparties in the UK. Lightman is registered with Companies House in England and Wales under the registration number 11647387, having its registered office at c/o Buzzacott LLP, 130 Wood Street, London, United Kingdom, EC2V 6DL.

### Target audience:

This document is intended for 'Eligible Counterparties' and 'Professional' clients only, as described under the UK Financial Services and Markets Act 2000 ("FSMA") (and any amendments to it). It is not intended for 'Retail' clients and Lightman does not have permission to provide investment services to retail clients. Generally, marketing documents are only intended for 'Eligible Counterparties' and 'Professional' clients in the UK, unless they are being used for purposes other than marketing, such as regulations and compliance etc. The Firm may produce marketing or communication documents for selected investor types in non UK jurisdictions. Such documents would clearly state the target audience and target jurisdiction.

### Collective Investment Scheme(s):

The collective investment scheme(s) - WS Lightman Investment Funds (PRN: 838695) ("UK OEIC", "UK umbrella"), and WS Lightman European Fund (PRN: 838696) ("UK sub-fund", "UK product") referenced in this document are regulated collective scheme(s), authorised and regulated by the FCA. In accordance with Section 238 of FSMA, such schemes can be marketed to the UK general public. Lightman, however, does not intend to receive subscription or redemption orders from retail clients and accordingly such retail clients should either contact their investment adviser or the Management Company Waystone Management (UK) Limited ("Waystone UK") in relation to any fund documents.

The collective investment scheme(s) - Elevation Fund SICAV (Code: O00012482) ("Luxembourg SICAV", "Luxembourg umbrella"), and Lightman European Equities Fund (Code: O00012482\_00000002) ("Luxembourg sub-fund", "Lux product") referenced on this website are regulated undertakings for collective investments in transferrable securities (UCITS), authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. In accordance with regulatory approvals obtained under the requirements of the Law of 17 December 2010 relating to undertakings for collective investment, the schemes can be marketed to the public in Luxembourg, Norway, Spain, and Republic of Ireland. Lightman, however, does not intend to receive subscription or redemption orders from any client types for the Lux product and accordingly such client should either contact a domestic distributor, domestic investment advisor or the Management Company Altum Management Company (Luxembourg) S.A. ("Altum Luxembourg") in relation to any fund documents.

Luxembourg umbrella and Luxembourg sub-fund are also approved for marketing to professional clients and eligible counterparties in the UK under the UK National Private Placement Regime (NPPR). UK registration numbers for the funds are as follows: Elevation Fund SICAV (PRN: 957838) and Lightman European Equities Fund (PRN: 957839). Please write to us at [compliance@lightmanfunds.com](mailto:compliance@lightmanfunds.com) for proof of UK registration of the funds.

Luxembourg sub-fund is also approved for marketing to qualified investors in Switzerland, within the meaning of Art. 10 para. 3 and 3ter CISA. In Switzerland, the representative is Acolin Fund Services AG, Leutschenbachstrasse 50, 8050 Zurich, Switzerland, whilst the paying agent is NPB Neue Privat Bank AG, Limmatquai 1 / am Bellevue, 8024 Zurich, Switzerland.

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The value of investments in any financial assets may fall as well as rise. Investors may not get back the amount they

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