

ANNEX III

(Paragraph xxx of Chapter 6)

Application

1.1 This Annex applies to an authorised undertaking carrying on long term business of insurance, where such undertaking invests directly, or through an asset manager, in shares traded on a regulated market.

Scope

1.2 This Annex takes into account some of the requirements laid down in [Directive \(EU\) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement](#), applicable to an institutional investor, as defined in the said Directive.

Definitions

1.3 For the purposes of this Annex;

(a) “asset manager” means an investment firm as defined in point (1) of Article 4(1) of Directive 2014/65/EU that provides portfolio management services to investors, an AIFM (alternative investment fund manager) as defined in point (b) of Article 4(1) of Directive 2011/61/EU that does not fulfil the conditions for an exemption in accordance with Article 3 of that Directive or a management company as defined in point (b) of Article 2(1) of Directive 2009/65/EC provided that it has not designated a management company authorised under that Directive for its management;

(b) “proxy advisor” means a legal person that analyses, on professional and commercial basis, the corporate disclosure and where relevant, other information of listed companies with a view to informing investors’ voting decisions by providing research, advice or voting recommendations that relate to the exercise of voting rights.

Engagement policy

1.4 Subject to paragraph 1.7, an authorised undertaking shall develop and publicly disclose an engagement policy describing how such undertaking:

- (a) integrates the shareholder engagement in its investment strategy;
- (b) monitors the investee company on relevant matters, including:
 - (i) strategy;
 - (ii) financial and non-financial performance and risk;
 - (iii) capital structure; and
 - (iv) social and environmental impact and corporate governance;
- (c) conducts dialogues with investee companies;
- (d) exercises voting rights and other rights attached to shares;
- (e) cooperates with other shareholders;
- (f) communicates with relevant stakeholders of the investee companies; and
- (g) manages actual and potential conflicts of interests in relation to their engagement.

1.5 Subject to paragraph 1.7, an authorised undertaking shall, publicly disclose, on an annual basis, how such engagement policy has been implemented, including:

- (a) a general description of voting behaviour;
- (b) an explanation of the most significant votes, and;
- (c) the use of the services of proxy advisors.

1.6 For the purposes of paragraph 1.5, an authorised undertaking shall publicly disclose how votes have been cast 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.

1.7 Where the authorised undertaking chooses not to comply with one or more of the requirements listed in paragraphs 1.4 to 1.6 such undertaking shall publicly disclose a clear and reasoned explanation as to why the undertaking has chosen not to comply with one or more of any such requirements.

1.8 An authorised undertaking shall make available the information referred to in paragraphs 1.4 to 1.6 free of charge on the undertaking's website.

1.9 Where an asset manager of an authorised undertaking implements the engagement policy, including voting, on behalf of an authorised undertaking, such undertaking shall make a reference as to where such voting information has been published by the asset manager.

Conflicts of interest

1.10 An authorised undertaking shall describe in its engagement policy how it identifies and manages any conflict of interest in relation to its engagement activities, irrespective of whether they arise in the undertaking or in the asset manager.

Investment strategy of an authorised undertaking and arrangements with asset managers

1.11 An authorised undertaking shall publicly disclose how the main elements of their equity investment strategy are consistent with the profile and duration of their liabilities, in particular long-term liabilities, and how they contribute to the medium to long-term performance of their assets.

1.12 Where an asset manager invests on behalf of an authorised undertaking, whether on a discretionary client-by-client basis or through a collective investment undertaking, such undertaking shall publicly disclose the following information in relation to its arrangement with the asset manager:

- (a) how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the profile and duration of the liabilities of the authorised undertaking, in particular long-term liabilities;
- (b) how that arrangement incentivises the asset manager to make investment decisions based on assessments of medium to long-term financial and non-financial performance of the investee company and to engage with investee companies in order to improve their performance in the medium to long-term;
- (c) how the method and time horizon of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the profile and duration of liabilities of the authorised undertaking, in particular long-term liabilities, taking into account its absolute long-term performance;

- (d) how the authorised undertaking monitors portfolio turnover costs incurred by the asset manager and how it defines and monitors a targeted portfolio turnover or turnover range; and
- (e) the duration of the arrangement with the asset manager.

1.13 Where the arrangement with the asset manager does not contain one or more of the elements referred to in paragraph 1.12, an authorised undertaking shall give a clear and reasoned explanation why this is the case.

1.14 An authorised undertaking shall make available the information referred to in paragraphs 1.11 and 1.12:

- (a) free of charge, on the undertaking's website; and
- (b) be updated annually unless there is no material change.

Reporting

1.15 In accordance with paragraph 8.6.4(f) of Chapter 8 of the Insurance Rules, an authorised undertaking may include the information indicated in paragraphs 1.4 to 1.6 and 1.11 and 1.12 in their report on solvency and financial condition in the manner and form referred to in Chapter 8.