

# Kingsway Capital Partners Limited

## SHAREHOLDER ENGAGEMENT POLICY

March 2022

In accordance with the FCA’s implementation of the EU Shareholder Rights Directive II (“SRD II”), we are required to describe how we engage with the publicly, listed companies in which we invest on behalf of our clients, including how we monitor these companies, and to disclose certain of our voting activities in respect of these companies.

As set out under SRD II, our practices concerning the key principles of shareholder engagement follow.

➤ *Our investment strategy*

We are long-only investors in quoted and unquoted issuers that are based or whose main activity is located in countries considered as Frontier and Emerging Markets.

The Kingsway team’s investment strategy is to invest in companies benefiting from the rise of the frontier market consumer. The strategy attempts to identify and invest in the primary beneficiaries of this trend that are likely going to produce the best risk-adjusted returns for investors over the long-run. We are attracted by dominant consumer franchises, many of which are listed subsidiaries of multinationals, for their exceptional track record of creating wealth for shareholders both in developed and emerging markets as well as their promising outlook in frontier markets. Our investment criteria are strict and we only invest in the “highest-quality” businesses. By this we mean companies which clearly demonstrate good corporate governance, enjoy dominant positions in large target markets with strong competitive moats which results in pricing power and the ability to earn high returns on both existing and incremental capital. We concentrate on businesses that are run by management teams who are talented allocators of capital, engaging in expansion projects only if returns are well above the cost of capital (which can be a high hurdle in frontier markets) and return all excess cash to shareholders, typically via dividends.

We perform detailed fundamental analysis of the companies, sectors, categories and markets our target companies operate in. We spend time building relationships with local brokers, accountants and management personnel, particularly of our portfolio companies. Alignment of interest, management incentives and corporate governance are paramount for us to understand. We regularly monitor business performance, competitive factors, significant changes in the consistency of reported results, as well as changes in the shareholder base.

We follow, first, rigorous bottom-up criteria emphasising quality of franchise (i.e. high returns on capital employed), value (i.e. great business at a fair price), managerial character (ideally owner-operators), shareholder alignment (i.e. high payout ratios) and first class corporate governance (to ensure minority rights are protected and to help in the avoidance of fraud).

Secondly, we seek out countries where the demographic & productivity tailwinds would allow companies to over time increase volume and prices. We remain macro cognizant by keeping track of balance of payments and being mindful of historical episodes where a country’s revenue model, strength of political institutions and/or credit creation led to a boom-bust cycle.

We may take the role of activist investors in certain key companies where a member of the Investment Team or one of our “Operating Partners” has assumed a directorship of an investee company. For certain other investments we are happy to offer our assistance to help companies understand what can be done to maximize shareholder value.

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We only own about 20 listed equities around the world at any moment. Our preference is to buy-and-hold great businesses for the long term and, therefore, our portfolio turnover is very low by industry standards.

➤ ***How we integrate shareholder engagement into our investment strategy***

Given our investment strategy and limitation in publicly available data in frontier markets, engagement with company management, either ourselves or via experienced consultants is therefore an essential part of our investment process.

In scrutinising a company as a potential investment, should we find that we have major disagreements over strategy, capital allocation or operating philosophy, our practice is simply not to invest in the first place. If such divergence develops after we have invested in a company, then we consider selling the holding.

➤ ***How we conduct dialogues with investee companies***

Our focus is primarily on capital allocation and capital distribution. Kingsway may invest in companies requiring strategic or operational intervention and may assume the role of activist investors. We meet regularly with company management and, subject to regulatory restrictions, benefit from the involvement of our Investment Team on company boards or via our “Operating Partners”. Our engagement with our investee companies may involve participating in the formulation, determination, or direction of their business decisions.

Kingsway regularly engages in constructive dialogue with the management of the companies in which the funds are invested, through meetings, e-mail and phone calls. In the overwhelming majority of cases, Kingsway votes in favour of shareholder resolutions proposed by the board of directors at ordinary and extraordinary general meetings of shareholders. When considered necessary and more so where Kingsway is a major shareholder or holds a board seat at a company, Kingsway will share its views with management, that are areas of concern for Kingsway, which either need to be further understood and/or addressed. This may include inappropriate remuneration practices identified at the company, the misallocation of company capital and stale products within the company’s product range. We believe that managers (i) should act like owners, (ii) be encouraged to balance growth and returns and (iii) be compensated appropriately to create value for stakeholders. In rare cases, if Kingsway believes that its views diverge materially from management and/or from the board of directors, Kingsway will choose to exercise its statutory shareholder rights to vote against shareholder resolutions proposed by the board of directors. However, it is not Kingsway’s policy in general to engage in shareholder activism via ‘aggressive’ activism campaigns waged in the public domain.

It is our policy generally not to be restricted by the receipt of sensitive non-public information and therefore our dialogue with companies is conducted in such a way as to manage and mitigate the risk of being provided with price sensitive non-public information.

When any inside information is passed to Kingsway through acting as a director for a company or from an “Operating Partner” the issuer’s name is placed on Kingsway’s Restricted List, thereby restricting Kingsway’s ability to deal in the investments in the issuer.

➤ ***How we monitor investee companies***

We continuously monitor investee companies on a range of factors including all aspects of their corporate governance and sustainability taking into account company strategy, financial and non-financial performance and risk, capital structure and management response to matters important to their consumers and customers.

We consider that risk control begins with being demanding about business quality. We also seek to minimise strategic risk, principally the risk of senior management making poor capital allocation decisions. We seek to

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reduce financial risk by looking for financial strength. We seek to reduce valuation risk by going about our stock picking with a strong bias to value and superior quality of business. We seek to reduce regulatory risk by understanding company management are planning to put into place appropriate measures to address upcoming changes. We seek to reduce market risk by closely monitoring a company's consumer market share and market performance. Our ongoing monitoring involves the internal analysis of publicly available data provided by the company, research providers and consultants, as well as the input from company meetings and events as described above.

With respect to social and environmental matters, despite the limitation in publicly available data or general corporate focus in frontier markets on these matters, we acknowledge that as shareholders we play a role alongside other stakeholders such as customers, consumers, local governments and regulators, in pursuing the corporate adoption of ESG measures.

We continuously compare the quality and valuation of the companies in which we have invested for clients with high-quality alternatives. If we remain satisfied that a business is fairly valued and well invested and that its managers share our enthusiasm for returns as well as growth, then we are happy to allow our investment to compound over time.

### **➤ *How we exercise our voting and other shareholder rights***

Proxy voting is an important way for us to engage with management teams of our investee companies. We translate our investment philosophy directly into the voting decisions we make at annual general meetings of shareholders. We vote all proxies in accordance with our Proxy Voting Policy with our Portfolio Manager being responsible for determining how to vote. We do not utilise the services of an external proxy voting adviser or in-house corporate governance specialist.

As our investment philosophy is premised on investing in high quality companies with good overall governance, we will typically vote with management. However, where we believe management's recommendations are not in the long-term best interests of our clients, for example in relation to their remuneration policies, we will vote against such proposals.

We have adopted proxy voting procedures that are designed to ensure that we act in the best interests of our clients. For clients that do not want proxy voting for their account, and have indicated this in writing to us, it is our policy to abstain from voting such proxies. We will identify and address any conflicts of interest between Kingsway, its staff and its clients.

We do not publicly disclose our voting record for reasons of confidentiality and the risk of disclosure of sensitive portfolio information. We do provide information on our voting activities to our clients on request.

### **➤ *Cooperation with other shareholders***

We engage with companies directly and on a confidential basis strictly for the purposes of carrying out research into and monitoring of investee companies. We may seek to ascertain other key shareholders' views in relation to our investee companies, although it is our practice not to vote in concert with other shareholders.

### **➤ *How we communicate with relevant stakeholders of our investee companies***

Company due diligence undertaken can include meetings and other communications with current and former employees, suppliers, creditors and local and national legal counsel (to check pending lawsuits).

### ***How we manage actual and potential conflicts of interest in relation to our engagement***

As a fiduciary, we have a duty to place the interests of our clients before our own. We maintain policies designed to avoid or manage conflicts of interests. The key policies that we have adopted which address conflicts of

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interests that may arise in relation to our shareholder engagement include our Code of Ethics, Conflicts of Interest Policy and our Proxy Voting Policy, as well as policies relating to the UK Bribery Act and Market Abuse, including insider dealing.

We require our staff to report any instance of them personally becoming a corporate director of a portfolio company or a family member serving as an officer, director, or partner of a public company so that we may assess and manage any conflicts of interest arising. Where a member of the Investment Team becomes a director, we manage the conflict of interest arising by ensuring that the individuals are formally made aware of their legal responsibilities. They may not personally benefit from any director's fees payable by local law. It is our policy that our staff may not engage in any external business activities or associations unless these are not inconsistent with the interests of our clients.

Our Code of Ethics, *inter alia*, places a strict prohibition on our staff and their related persons from trading in the securities of our listed investee companies or of listed companies contemplated for our client accounts and/or any security that is on our restricted list. More generally, no personal trades in securities may be undertaken where a conflict of interest arises.

Additionally, our staff may not accept from any person any benefit or inducement which might be seen as conflicting with their duties to Kingsway or to any of our clients. We permit minor non-monetary benefits such as attending conferences/seminars/training events relevant to our investment business, and hospitality of a *de-minimis* value. Business entertainment and gifts are similarly subject to strict restrictions on value and frequency. All instances of gifts (given or received) to third parties, if not *de-minimis*, must be reported, as must all instances of third-party business entertainment.