

HARGREAVES
LANSDOWN

ENGAGING WITH ALL OUR STAKEHOLDERS

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Hargreaves Lansdown's purpose is to empower people to save and invest with confidence. We seek to enable our clients to live their best possible financial futures, and, as a responsible business, we want to achieve a positive impact for all of our stakeholders.

This document talks about how Hargreaves Lansdown seeks to positively impact all its stakeholders, including our investors, our amazing colleagues, the communities and environment around us, our clients, and beyond. It also discusses how our teams of HL fund managers have been integrating engagement into their investment processes.

We support our wider society by the empowerment of our clients, through providing employment to over 1,800 colleagues and by paying corporate, PAYE and other taxes. HL did not take any financial assistance from the Government during the coronavirus pandemic. In our financial year to 30 June 2021, the Group paid £77.5m in corporation tax and Employers National Insurance contributions. Our tax rate for the year of 19.1% was in line with the standard national rate of corporation tax. We also pay other taxes such as stamp duty, VAT and business rates.

The HL Foundation is the charitable arm of Hargreaves Lansdown which supports local community projects around our home city of Bristol. With colleague donations matched, or double matched, by Hargreaves Lansdown, our work with Help Bristol's Homeless in 2020 raised a record £180,000, funding a new wellbeing centre and two self-contained living apartments. In 2021 the Foundation has chosen to support 1625 Homeless, a Bristol-based charity that works to alleviate and prevent homelessness amongst young people in the Bristol area. The Group meets all of the Foundation's running costs, and 100% of the monies it raises go to the charities nominated by HL employees.

Our focus on Diversity, Inclusion and Wellbeing is shown by our support for Colleague Groups promoting cultural diversity within our workforce. We are a welcoming employer for members of the LGBT+ community, and you can learn more about our efforts to promote gender fairness here: www.hl.co.uk/corporate-social-responsibility/gender-pay-gap

Hargreaves Lansdown is also a signatory to the Women in Business Charter and has exceeded the target to have women holding a third of Board positions in the group.

Our commitment to diversity and inclusivity includes our sponsorship of apprenticeships and career development opportunities for colleagues from the Black and Minority

Ethnic communities. We are proud to be a founding signatory to the Bristol Equality Charter, where we pledged to take actions to improve equality and diversity in our home city.

Our colleagues' Mental Health is as vital as their physical health. We support them and raise awareness of mental health issues through a dedicated group. Other groups focus on improving our environmental footprint and promoting outreach to the local community.

If you'd like to learn more about the Hargreaves Lansdown group's approach to Corporate and Social Responsibility, you can read more here www.hl.co.uk/corporate-social-responsibility

As the largest retail investment platform in the UK, Hargreaves Lansdown aims to make it easy for our 1.7m clients to save and invest with confidence. Our team of investment specialists produce reports on investing in the Responsible Investing space, and our Wealth Shortlist features our favourite funds, including our top picks in the Responsible Investing sector.

We also have our in-house teams of Fund Managers, and, in the next section, you can learn more about how they go about engaging with the companies and funds that they pick, along with a summary of how they have voted the shares in those funds.

ENGAGEMENT REPORT

Hargreaves Lansdown Fund Managers Limited manage a range of funds under the HL Select banner that invest directly into equities in the UK and overseas. We also offer a range of HL Multi-Manager funds. The investment processes of the two are necessarily different, so we have split this report into two sections. The first section covers our Select funds, the latter our Multi-Manager range. Our engagement policy, which should be read in conjunction with this document, is available on the HL Website here: www.hl.co.uk/funds/hl-funds/hl-select/other-documents

We are committed to being responsible investors, and all of the funds managed by HL are done so in alignment with our Responsible Investment policy, which can be found here: www.hl.co.uk/funds/hl-funds/hl-select/other-documents

Hargreaves Lansdown Fund Managers are proud to be a signatory to the UN Principles of Responsible Investment as of 2021. The investment processes of both our Multi-Manager and HL Select funds all incorporate consideration of the ESG positioning of potential investments.

HL SELECT FUNDS

Stewardship

Long term success for any business requires a sustainable business model. Companies that fail to respond to Society's evolving expectations about environmental, social and governance matters will face an increasingly uphill struggle. Our investing style is long term. We look to support quality business models capable of creating rising cash flows for years into the future. This confidence to invest for lengthy periods requires us to have a deep understanding of the businesses in which we invest.

Such understanding requires us to have constructive relations with management. Both sides must be willing to engage in open and frank conversations about matters that range from commercial strategies to corporate governance.

We expect all companies to operate responsibly. This responsible behaviour includes conducting its affairs in a safe manner without causing harm to the communities and environments in which it operates. Companies must be good corporate citizens and pay all appropriate local taxes wherever they operate, whilst also respecting their shareholders' desires to earn economic returns for the risks undertaken.

OUR INVESTOR TEAM

All our analysts and fund managers have professional qualifications, either CFA Charter holder or Associate of the Institute of Investment Management and Research. Between them, they have over 65 years of investment experience. Our fund managers have a significant proportion of their remuneration deferred for up to three years, capable of being withheld or clawed back. This deferment incentivises them to exercise their duties with care and attention.

HL Select – Engagement in Practice

HOW WE MAKE OUR INVESTMENT SELECTIONS

We look to invest in businesses that we believe are exceptional in their fields, where we think the prospects for long term value creation are strong. We have limited exposures in areas such as commodity production, where the scope for adding value to the product is limited. We are attracted to digital winners in various industries because these businesses often possess significant intellectual

property. We often find strong recurring revenues within digital companies, and we value these highly, especially when matched with free cash flows.

Consequently, our funds tend to be relatively under-exposed to traditional "heavy" industries and resource extraction, with an overweight exposure to sectors with relatively modest carbon intensities. We do not manage the funds on an explicitly ESG basis, but the company characteristics we seek tend to push us naturally towards areas with relatively favourable ESG profiles.

We analyse whether businesses face significant ESG risks as part of our investment process. We rely on our accumulated knowledge of the companies' activities and consider ESG ranking and reports available to us as part of this process. These are considered alongside a broader range of factors when deciding to invest or not.

We believe that businesses with poor ESG profiles will face an uphill struggle. If workforces suffer mistreatment, companies cannot expect the commitment and desire for success from their employees that flows through winning businesses. Likewise, if a business is not a good corporate citizen, it cannot expect cooperation from local authorities when it looks to expand.

Poor environmental outcomes inevitably lead to more significant regulatory restrictions, whilst businesses that use resources efficiently are often better placed to earn strong profit margins. Good governance underpins good decision making, without which companies cannot thrive.

HOW WE ENGAGE

Meetings with the management of investee companies are a core part of our investment process at every stage of the life cycle of a holding. We have historically met companies at their premises and our offices and elsewhere. In the Covid era, telephones and video conference facilities have been the dominant means of communication. The start of 2022 has witnessed the return of face to face meetings, and team members have once again resumed travelling to meet company management in person when appropriate.

We use meetings to learn about the business and its operating environment and discuss governance matters.

We have engaged with investee companies on issues ranging from investment policies to director and senior management remuneration.

Because we choose to invest in businesses that we rate highly, rather than those we believe can benefit from change, we are rarely at odds with management about substantive matters of strategy.

Our ability to influence is proportionate to the scale of our holdings. A significant holding for our funds in a major multi-national company may represent only a tiny fraction of a percent of their total shares in issue. In these cases, we are most likely to sell the investment if we find ourselves no longer able to support managements' strategy.

Where our holdings are a significant proportion of a company's share capital, we seek to have regular meetings with management to ensure our understanding of the strategic direction remains valid. We believe companies can deliver the best results for all their stakeholders when management and shareholders engage constructively. When both sides take a longer-term, holistic view of the challenges that need to be overcome, there is more chance of turning a strategy into a success.

One of the benefits of meeting with management before investing is the opportunity to learn what drives their capital allocation decisions. Understanding priorities is critical to assessing the likely level of future returns. Increasingly, we discuss the risks and opportunities available to businesses as they position themselves for the transition to net-zero.

Governments will use a carrot and stick approach to maintain momentum in the transition to net-zero. It is vital to us, as investors, to understand where a company's exposure to these incentives and penalties may lie. We do not take an exclusionary approach when considering where to invest. However, as we said earlier, our investment style tends to lead us toward industries that are relatively well positioned in terms of their environmental impact, and we have high governance expectations. If, however, we can identify businesses that have the potential to leapfrog their competitors on the path to net-zero, there could be opportunities.

We believe carbon pricing will be the biggest 'stick', and we expect to see it introduced more widely in the years ahead.

Voting

We use our voting rights to express our views during the period of investment based on our investors' fiduciary interests. You can see a summary of our voting actions in the appendix to this report.

We are always happy to engage with companies seeking our views on matters ahead of a vote and encourage companies to take opinions from investors before pursuing potentially contentious matters.

Given that we invest in businesses that we admire, it is unsurprising that we often vote in favour of the resolutions put to shareholders. Where we are likely to abstain or vote against is most commonly in matters concerning Board composition, remuneration levels or the structures of packages.

In 2021, much of our engagement was advocating appropriate remuneration structures at our investee companies. We believe that a company's incentive structure and the interests of shareholders, and other relevant stakeholders, should be aligned. This engagement may be about ensuring that financial hurdles are set high enough and that the most appropriate metrics are used. But it can also be about ensuring that corporate performance on social and environmental measures is sufficient to ensure that the company maintains its social licence to operate.

PRINCIPLES OF VOTING

We make our own decisions on voting but take advice from governance specialists, ISS, about the issues underpinning individual votes. This arrangement allows us to take advantage of their detailed local knowledge of market practices worldwide, which can be somewhat different from those in the UK, whilst retaining the final say on deciding how to vote our funds' stock.

We have varied from ISS guidance on several occasions in 2021. In one instance, we voted in favour of two non-executives' re-appointment, despite insufficient independence. We took this decision because the outcome of failing to re-elect them would have been to leave the board without any non-executive representation. Our engagement challenge at this business will be to seek the nomination of genuinely independent non-executive directors to that board. In another instance, we voted in favour of a company's remuneration policy against ISS guidance, reflecting the prior engagement which we had held with the company. This had led to us being satisfied that the policy was indeed appropriate for that business. We noted subsequently that other influential governance advisory agencies shared our opinion.

We think the combination of the underlying consistency of approach that a governance adviser can provide, with the individual review of the application of policy by fund managers in particular cases, can optimise the voting power of funds.

HL MULTI- MANAGER FUNDS



HL Multi-Manager Funds

Our Multi-Manager team seeks out the best managers who they believe will add value on a risk-adjusted basis to the portfolio. The highly experienced team focuses on researching funds and their managers, the markets they invest into and the wider investment outlook. Professional qualifications back up their experience, including CFA Charter holders and AII MR membership.

We continue to add additional resources to the team, both in terms of people and technology.

HOW WE MAKE OUR INVESTMENT SELECTIONS

Our Multi-Manager range has its foundation built on rigorous quantitative and qualitative research. Our proprietary quantitative model has been designed to decipher why a fund performs the way it does. We aim to distinguish truly talented stock pickers. Aside from the numbers, the team also spends hundreds of hours meeting with fund managers, either virtually or in-person, assessing their investment philosophies and strategies and considering their wider economic views. Each of the fund managers we invest with has their own investment processes and think differently from each other.

Indeed, in many cases, that's what attracts us to invest with them. However, we do expect them to invest responsibly and incorporate Environmental, Social and Governance (ESG) considerations in a way that suits their investment style; and to develop their approach to ESG integration over time.

The HL Multi-Manager team believes that the incorporation of ESG issues into the investment processes of our underlying fund managers is not only good risk management but critical in assessing the future sustainability of the businesses in which they invest. Ultimately fund managers aim to back winners and avoid losers. A failure to engage with ESG risks means a fund manager is not considering all potential threats, or opportunities, to their investments' financial health.

The team assess a manager's ESG approach in two ways. Firstly, they meet the underlying fund managers and carry out an assessment of the manager, including evaluating their approach to ESG factors. The responses form part of a more expansive fund manager 'checklist', which also considers other considerations such as fund manager track record, incentivisation structure, plus the culture of the investment firms they represent.

The team also requires each fund group to complete an extensive annual due-diligence questionnaire, which covers numerous issues from the financial strength of the fund house to fund governance and liquidity management processes. It also includes a series of questions specifically related to ESG and climate change.

The combination of the fund manager meetings and the Due Diligence questionnaire build our understanding of the managers' ESG approach.

HOW WE ENGAGE

The HL Multi-Manager funds invest both through externally managed funds and segregated mandates. In both cases, the underlying fund manager is delegated to engage with the underlying companies.

The HL Multi-Manager team meets regularly with each underlying fund manager. These meetings provide the opportunity for us to get updates on their fund's progress, the evolution of their investment strategy and their engagement activity.

As signatories to the Principles for Responsible Investment, it is incumbent on us to ensure we are active owners and incorporate ESG issues into our ownership policies and practices and we continue to develop our analysis and strategy to reflect the ways in which our funds operate.

VOTING

The responsibility for voting is delegated to the underlying fund managers, although HL reserves the right to direct segregated mandate managers how to vote.

The team examine votes cast by the segregated mandate managers and use this information to gain a practical understanding of the approach those managers take towards governance matters.

APPENDIX

Voting Record for the year ended 30 Sep 2021.

Covering the HL Select UK Income Shares fund, the HL Select UK Growth Shares fund and the HL Select Global Growth Shares fund.

Number of meetings where we submitted votes on behalf of Select funds	66
Number of meetings where we did not submit votes	2
Number of occasions where we voted against one or more motions	15
Number of occasions where we abstained from voting on one or more motions	7
Number of occasions where we voted in favour of all motions	42