

HARGREAVES
LANSDOWN

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ENGAGING WITH ALL OUR STAKEHOLDERS

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 our stakeholders.

This document talks about how Hargreaves Lansdown is seeking to make a positive impact on all its stakeholders, including our investors, our amazing colleagues, to 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 1,500 colleagues and by paying corporate, PAYE and other taxes. HL has not taken any financial assistance from the Government during the coronavirus pandemic. In our financial year to 30 June 2020 HL paid £99.5m in corporation tax and Employers National Insurance contributions, up from £59.5m the prior year. We also pay other taxes such as stamp duty, VAT and business rates.

The HL Foundation is the charitable arm of Hargreaves Lansdown and it supports local community projects around our Bristol home city. With colleague donations matched or double matched by Hargreaves Lansdown we have provided support to local NHS charities and Help Bristol's Homeless. All of the Foundation's running costs are met by the group 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: <https://www.hl.co.uk/corporate-social-responsibility/gender-pay-gap>

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

Our commitment to diversity and inclusivity includes sponsoring apprenticeships and career development opportunities for colleagues from the Black & 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 and we support them and raise awareness of mental health issues through a dedicated group, whilst other groups focus on ways of improving Hargreaves Lansdown's environmental footprint and promoting outreach into 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 <https://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 1.5m 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 own 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 the HL Select team have voted 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 this report is split into two sections the first covering 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: <https://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: <https://www.hl.co.uk/funds/hl-funds/hl-select/other-documents> Hargreaves Lansdown Fund Managers are proud to be a signatory to the 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. Confidence to invest for long periods of time requires us to have a deep understanding of the businesses we invest our clients' funds into.

Such understanding requires us to have constructive relations with managements and for both sides to have a willingness to engage in open and frank conversations about matters that range from commercial strategies through to corporate governance.

We expect any company into which we invest to operate in a responsible fashion. This 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 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 incentivises them to exercise their duties with care and attention. No analysts or fund managers have left the HL Select team for any reason since its inception in 2016.

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 believe 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 a wide range of industries, because these businesses often possess significant intellectual property. We often find strong recurring revenues within digital businesses and we value these highly, especially when matched with free cash flows.

In consequence, our funds have a tendency to be relatively under-exposed to traditional "heavy" industries and resource extraction, with an overweight exposure to industries 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 consider whether businesses face significant ESG risks as part of our investment process and 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 as part of a broader range of factors when deciding to invest or not.

We do believe that businesses with poor ESG profiles will face an uphill struggle. If workforces are mistreated, companies cannot expect the commitment and desire for success 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 greater regulatory restrictions, whilst businesses which use resources efficiently are 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 own premises as well as at our offices and elsewhere. In the Covid era, telephones and video screens have become the means of communication. We look forward to a return to face to face meetings in years ahead.

We use meetings to both learn about the business and its operating environment and discuss governance matters. We have engaged with investee companies on matters ranging from investment policies to director and senior management remuneration.

Because we choose to invest in businesses that we rate highly, rather than those that we might 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 small fraction of a percent of their total shares in issue. In these cases we are most likely to take the route of selling 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 to be overcome there is more chance of turning a strategy into a success.

One of the benefits of meeting with managements prior to investing is the opportunity to learn what drives their capital allocation decisions. Understanding priorities is critical to assessing the likely level of future returns. In a recent meeting with a Real Estate business it became apparent that their policy was to acquire "Trophy" assets and hang onto them, rather than selecting on the back of expected returns relative to those available elsewhere. We did not invest.

We are responsible investors and as part of our assessment of the investment case for any company we examine the environmental, social and governance issues affecting the business. Our aim is to identify whether there are risk factors stemming from how the company is managing its ESG performance that could threaten the validity of the investment case.

VOTING

We use our voting rights to express our views during the period of investment. We vote on the basis of our investors' fiduciary interests. We provide a summary of our voting actions in the appendix to this report.

We are always happy to engage with companies who seek our views on matters ahead of a vote and encourage companies to take soundings 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 most likely to abstain or vote against is in matters concerning Board composition, remuneration levels or the structures of packages if we see remuneration design as insufficiently aligned to shareholder interests.

In the past we have voted against proposals to award retrospective bonuses to executives who had already been paid bonuses for their efforts at the time, or for incentive packages that did not encourage executives to consider the returns on capital generated by their groups.

PRINCIPLES OF VOTING

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



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HL MULTI- MANAGER FUNDS



Our Multi-Manager team is highly experienced, with each fund manager having worked in an investment role within HL for at least a decade. The team focus on researching funds and their managers, the markets they invest into and the wider investment outlook. Their experience is backed up by professional qualifications including CAIA and AII MR status.

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

HOW WE MAKE OUR INVESTMENT SELECTIONS

Each of our Multi-Manager funds is based on rigorous quantitative and qualitative research. Our proprietary quantitative model is designed to decipher why a fund performs the way it does. Our aim is to distinguish truly talented stock pickers. Aside from the numbers, the team also spends hundreds of hours meeting fund managers, assessing their investment philosophies and strategies, and considering their wider economic views.

Each of the fund managers we invest with have 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. 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 the manager's ESG approach in two ways. Firstly they meet the underlying fund manager(s) and carry out a wider assessment, including assessing their approach to ESG factors. The responses form part of a wider fund manager 'checklist', which also takes into account 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 issues ranging 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 responsibility to engage with the underlying companies is delegated to the underlying fund manager.

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

Real life example: The HL Multi-Manager team also engage with fund managers on an ad-hoc basis where necessary. For example, it recently came to the team's attention that a well-known UK business was facing an industrial dispute over decisions made by the company's management team. The HL Multi-Manager team therefore contacted all the underlying managers that invested in the business on behalf of HL funds to discuss how they were approaching the situation through the lens of their ESG work.

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 2020

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	74
Number of meetings where we did not submit votes	1
Number of occasions where we voted against one or more motions	9
Number of occasions where we abstained from voting on one or more motions	19
Number of occasions where we voted in favour of all motions	45