

Family Assurance Friendly Society Limited

Shareholder Rights Directive: Engagement Policy

1. Introduction

This policy sets out the way in which the Family Assurance Friendly Society Limited (“the Society”) engages with the companies in which it invests, in line with the requirements of the Shareholder Rights Directive (Asset Managers and Insurers) Instrument 2019.

Strong engagement is important as it promotes good corporate governance and ensures that consideration is given to the way in which the interests of the Society’s members are related to the investments held on their behalf.

The Society takes its responsibilities in this area very seriously, in line with its mutual status and its primary obligation to look after the interests of its members.

2. How the Society integrates shareholder engagement with its investment strategy

The Society’s investments in companies are managed by external asset managers, who also manage shareholder engagement on the Society’s behalf. Details of the asset managers are provided below.

When appointing an asset manager, the Society undertakes a tender process which assesses a range of factors, including not only the manager’s investment approach and fees, but also factors such as their values and cultural fit with the Society and the approach they take to engagement with the investee companies.

The investment strategy of the Society is set by the Society’s Board and managed by the Executive Investment Committee (“EIC”). The EIC meets on a regular basis to review the performance of the asset managers, including their engagement record, to ensure that it forms part of an integrated investment strategy.

3. The Society’s approach to monitoring investee companies, maintaining dialogue, exercising voting rights, co-operating with other shareholders and communicating with relevant stakeholders of the investee companies.

The above activities are all delegated by the Society to the asset managers. These have the requisite expertise, experience and infrastructure to be able to undertake this activity. They have in place appropriate policies and methodologies that enable them to discharge these duties appropriately and to be able to provide detailed reports on the activities they have undertaken.

The EIC meets with asset managers on a regular basis to review their performance and to consider how the asset managers have discharged their obligations in respect of these requirements.

The Society also undertakes compliance monitoring reviews of the asset managers, which include consideration of the asset manager’s approach to stewardship and engagement.

4. Managing actual and potential conflicts of interest in relation to the Society's engagement

The Society has not identified any actual or potential areas of conflict arising in respect of its engagement through the asset managers with investee companies. Potential conflicts of interest are considered by the Board and the EIC on a regular basis.

5. Investment strategy

When considering its investment strategy, the Society has due regard to how the strategy is aligned to the nature of the underlying business and is related to the associated liabilities. In particular, consideration is given to:

- The underlying products and the product life cycle.
For example, most of the Society's products are long-term in nature with a ten-year plus expected duration and the investment strategy reflects the long-term nature of these products.
- The remaining duration of the life of the books of business.
For example, for books that are running off, the profile and duration of the liabilities may be different and require a different investment strategy from new books of business which have a longer duration. Consideration is given to asset-liability matching to ensure that the assets held are appropriate for the business. This also includes considerations of factors such as liquidity of the funds and the nature of any guaranteed returns available to customers.
- The alignment of the investments to the Society's own culture and values and to the underlying communications provided to customers such that the investments meet the reasonable expectations of customers.
For example, the Society is increasingly focusing on investments which meet minimum standards on environmental, social and governance matters.

By ensuring that appropriate consideration is given to these factors the Society seeks to balance the performance of the assets held on behalf of its members with the associated investment risks in order to optimise the outcome for its members.

6. The Society's arrangements with asset managers

The Society's investments in companies are managed by external asset managers. Each of these produce their own Stewardship Policies that describe their approach to how they monitor investee companies, covering areas such as strategy, financial and non-financial performance and risk, capital structure and their approach to corporate governance and environmental and social impacts of the company. They provide information on how the asset manager engages with the investee companies, publish their own data in respect of their approach to stewardship, their engagement policies and their voting activity. Details of each of the asset managers are provided below:

- State Street Global Advisors
Appointed in 2012
Website: www.ssga.com

- Invesco
Appointed in 2021
Website: www.invesco.com

To ensure that asset managers have a good understanding of the Society's business and are aligned to the Society's goals, we actively engage with the asset managers:

- We discuss with the asset manager the nature of the business, the underlying strategy and objectives and the expected profile and duration of the associated liabilities.
- We expect the asset manager to explain to us how their proposed investment strategy aligns to our strategy and objectives and how they expect to undertake their engagement with the companies in which they will invest.
- We evaluate the asset managers against a set of criteria that include not only factors such as their investment performance track record, fees and value for money but also their cultural fit with the Society, their understanding of our objectives and strategy and the asset manager's approach to engagement.
- We do not offer performance-related remuneration to our asset managers. Instead we provide fair remuneration based on open market rates and require our asset managers to report on their performance relative to the market.
- We undertake ongoing evaluation of the asset managers on a regular basis, considering their performance and alignment to the Society's objectives to ensure that the Society can continue to meet the reasonable expectations of its members, balancing performance, risk and liquidity considerations.
- We review portfolio turnover costs on a monthly basis. We review these against historic benchmarks and discuss with the asset manager instances where we feel the turnover activity is excessive.
- If we appoint a new asset manager, we would expect to apply these same processes to the selection process using a competitive tender approach.