Trinetra Investment Management LLP
Engagement Policy

Introduction

Responsible Investment and Engagement are core to our purpose and investment philosophy. It is implicit in our fiduciary duty to our clients and beneficiaries, but moreover, we consider it an obligation to other stakeholders, including a company's employees, its customers, and the wider communities that they affect.

Trinetra Investment Management ("Trinetra") is a signatory of the UN's Principles for Responsible Investment and in March 2022 the firm was accepted as a signatory to the UK Stewardship Code.

Consideration of ESG (Environmental, Social and Governance) issues is integrated into each stage of Trinetra's investment process, including engagement activities.

Over what issues will we Engage?

The issues over which we will engage show a large degree of overlap with the policy areas in our Proxy Voting Policy. Engagement activities can take a broader scope, since their scope is not specifically defined by a company's meeting agenda. We largely focus on two areas during engagement: how management can solve some of the social issues that we identify during our Immersion studies; and identification of risks – the first two categories discussed below.

Consumers and Social Issues

One of Trinetra's purposes is to give emerging market consumers a voice, and we relay those voices directly to management. We identify social issues during our Immersion studies, giving us valuable insight into the problems, needs, aspirations and future trends of specific groups of emerging market consumers. That also provides us with insight into how to solve some of their problems. We seek to invest in companies that are able to supply those consumers with what they are looking for, and to solve their problems.

Engagement on social issues involves providing insights into evolving trends based on our ethnographic studies of consumers – Immersion studies. We provide evidence, including video recordings, of consumers discussing their issues, as well as the impact of specific products on their lives. This makes the viewpoints more tangible for management. For example, we have identified that microfinancing for women to start businesses in India is available at 27% interest rates. An established, formal business can access bank loans at an 11% interest rate. But there is next to nothing in between. Many homepreneurs, entrepreneurs who have set up businesses from home, perhaps as caterers or seamstresses, are starved of capital. The microfinance rate is too high, and they are unable to access the 11% business rate as their businesses are not formal. On a recent Immersion study we invited management from a financing organisation to attend our on-the ground visits to women in their homes so that they could witness the issue for themselves, with a view to finding solutions to help these women.

Solutions would help them to grow their businesses, generating wealth for their families, employing other women, initiating a cycle of positive empowerment and so economic development.

When companies appear to us to be behaving unfairly with their consumers, to exploit them or otherwise profiteer from unduly onerous terms or disingenuous claims, our engagement aims to help them to understand that there are significant risks that they are not incorporating in their risk assessment framework in the short term, which could be detrimental to the company in the long term.

Risk Identification and Risk Management

A company's exposure to risk, its approach, understanding, management and mitigation of risk has a substantial influence on a company's sustainability. Companies that are more exposed to material risks that they are unable to manage are less likely to succeed.

Our risk assessment methodology is described on our website and we have given a keynote talk to help inform other investors of the benefits of using such a methodology. It is a similar process to those employed by some of the companies in which we invest.

During our engagement we focus on risks that the business is facing, such as ESG, operational, strategic and financial risks. We seek to understand from management the methodology by which they manage all of their ESG risks. We also look to identify areas for improvement in their risk management processes. We try to match our understanding with that of management for two key parameters for each risk: likelihood and impact. This can help to identify risks that either Trinetra or management may not have considered. We engage with management to understand both the detective and preventive controls that they put in place to manage those risks. This process gives us a deeper understanding of how well management undertakes its role, not only in terms of growth, but also in terms of protecting and sustaining the assets and operations of the business.

ESG and Sustainability

We believe that ESG and sustainability risk have a direct impact on risk adjusted returns when looking at longer term horizons. For companies to ignore what are perceived as externalities can be akin to borrowing profits from the future at extremely high interest rates. When regulators and/or consumers understand a company's damaging behaviour on its consumers, its employees, the broader community, or on the environment or in terms of climate change, regulators can impose penalties as remedies or disincentives, while consumers can avoid buying that company's goods.

Regulatory

Regulatory intervention is often seen as a nuisance or burden on companies. In emerging markets, regulation can be imposed to serve opportunistic political agendas or cronyism, or to create barriers to competition, shoring up incumbents. The effect is often to dull competition, which in turn stifles innovation that could otherwise benefit consumers with lower costs, high quality, greater functionality, or better service.

We are in favour of companies that seek to back regulation that encourages competition. We look unfavourably on companies that "pull up the drawbridge" and seek to capture regulators in their efforts to do so.

Disclosure

In the absence of clear disclosure and transparency, investors are unable to make a proper assessment of a number of parameters within a company. We therefore encourage management to disclose at least sufficient information for investors to gain a fair impression of the company. Given that we invest in markets where regulations and conventions for disclosure, especially ESG-related disclosure, differ markedly. We therefore have to set our expectations in the context of the market where each company is located.

Diversity

We support actions that promote greater equality between women and men. In some companies, action needs to start at the Board level. Norms and conventions differ in the countries where we invest, but where women are unrepresented on boards, we encourage a shift in attitudes. We encourage companies to apply policies that ensure equal conditions for female and male employees.

While we are sensitive to cultural conventions, we find discrimination on the basis of gender, gender identity, race, religion, nationality, or sexual orientation to be wrong. We consider striving for equality to be a just cause. We also believe that discrimination represents of waste of talent that could otherwise contribute to long-term shareholder value, company sustainability, and economic development.

Governance, Remuneration and Board Composition

As well as the gender diversity that we seek to promote on a company's board, we seek governance structures and processes that help to align management's incentives with the interests of shareholders. We go further in that we look for a governance approach that seeks to align management with the company's customers. Board and executive compensation proposals should therefore be fully disclosed to shareholders and specific, with limited room for ex post discretion, allowing optimal transparency. A board's independence can be useful in countering some undesirable behaviours, and so we encourage boards to have a majority of independent directors.

Board Remuneration

We seek alignment with shareholders' long-term interests, as well as sustainability goals. We also seek remuneration of independent directors that is not excessively generous such that it compromises the independence that their roles necessitate. Long-term alignment should mean that vesting periods are also long-term. The avoidance of discretionary elements in awards helps to establish the clear criteria against which performance is measured.

Auditor Appointment

We believe that excessive terms as company auditor can lead to negative behaviours, or otherwise be a signal for some of those behaviours. We would seek to discourage reappointment of auditors whose terms have been excessive. Local market practices mean that we may act with sensitivity.

Auditors should be sufficiently independent from the company and its management in discharging their fiduciary duties to shareholders.

How we Engage

We consider proxy voting as a formal way for us to convey our support or lack thereof to management on a specified set of issues, including some ESG issues. Our Proxy Voting Policy is available on the Responsible Investing section of our website. Engagement allows more nuanced discussions and sharing of opinions on a broader set of issues.

Engagement is core to Responsible Investment and has several strands. Long-term shareholder value and sustainability are the overarching principles within the discussions that we hold, and which we see as being interdependent. While the scope of our engagement activity can be broad, it tends to focus on two areas, as mentioned in the previous section: how management can solve some of the social issues that we identify during our Immersion studies; and identification of risks. These issues are invariably discussed with management on a standalone basis.

For issues other than consumers/social and risk, each time we engage, we consider whether to do so on a standalone basis, as the firm, or as part of a collaborative effort. A key factor in deciding how to proceed is outcome, hence we consider what we believe will be the most effective basis of engagement.

We do not engage in activity, either on a standalone basis or within a collaborative group of investors, where the outcome being sought is a short-term boost for the company and its share price. Our sustainability objectives are inherently long-term and can hence conflict with short-term objectives.

For standalone engagement, we also consider the most effective ways in which to engage. This can involve letters, emails, video calls and face-to-face meetings. Because our ethnographic Immersions research is not replicated by other investors, and the subject of engagement often relates to insights into consumer behaviours and trends, we may also invite company management to attend Immersions studies with us. We may also show video recordings of these meetings to bring discussions to life and to add impact to the insights that we discuss when engaging with management.

Where a company might be acting in a way that unambiguously harms its employees, its customers, its market, or the environment, we would seek to engage, to help them understand why we will not invest in them until they resolve the issue. We have a filter that insists that all ESG risks have to be quantifiable before our analyst performs detailed bottom-up work, so such companies will generally fail to get through our research process and with therefore not be investments in our portfolio. If new information comes to light that makes ESG risks unquantifiable for companies that we own, we will sell the position.

We have a single strategy, so application of our policy is consistent.

We believe that a company management's approach to ESG (Environmental, Social, Governance) issues can be a strong indicator of that company's ability to sustainably generate shareholder value for its owners, our clients.

Process

For certain instances where we have voted "AGAINST" a Board's recommendation, we will consider writing to management to explain our reasoning for the vote, and to attempt to encourage a change in the Board's position for future similar votes. Having identified issues where a proxy vote "AGAINST" might be an insufficient means of expressing our disapproval over that issue, we will consider voting against the re-election of management, usually the Chair of the Board or director with specific responsibility for the issue. Sometimes the issue itself may not be the subject of a proxy vote.

If a breach of our principles or policy is unpalatable, we will consider selling the entire position. This is consistent with owning companies where we expect attractive risk-adjusted returns. If we consider that the risk has become too high, or the returns too low, over a reasonably long-term time horizon, then we would not wish to own that company in the portfolio.

After internal investment team discussions, we will decide on how to most effectively persuade management to consider changing course. In the first instance, we will decide whether to join or establish a collaborative action with other stakeholders, or to pursue a standalone engagement objective.

For a standalone engagement, we will discuss how best to make our case to management. This relates to the substance of the argument and the medium of engagement, whether letter, email, call, video call or live meeting. We are mindful that our perspectives might be skewed, so are always prepared to hear counter-discussions from companies, and to see the issue from their angle.

We then assess the outcome of any discussion and decide on the best course of action. This may variously involve: successful persuasion and outcome; conceding to management's position; escalation (see "Escalation" below – for standalone engagements, this may mean escalation to a collaborative action); or disposal. Disposal becomes a viable conclusion when it becomes unambiguous that management is not aligned with shareholders to a material extent. Beyond one-off, poor decision-making, this can be a pattern or intention of poor capital allocation. In particular this applies when the composition of the company has substantially changed, or is expected to, such that it deviates from our investment rationale.

Each engagement instance is documented, and to conclude, we examine what happened so that we can understand what we can learn from our engagement.

Escalation

When we choose to engage with a company management, as referenced in "How we Engage" above, we consider various means of communication including letters, emails, video calls and face-to-face meetings. As also mentioned above, our engagement often revolves around the insights that we gain from our Immersions research, and as such is usually intended as a constructive and cooperative sharing of insights. In that regard, escalation sometimes involves management offering us meetings with other members of their management team for whom our insights may be especially pertinent.

Where our attempts to engage are less enthusiastically received, we may choose to escalate in a variety of ways. We may request meetings with certain Board members or the Chair of the Board. We may also ask certain of the company's advisors to pass on our concerns. As mentioned in "Process" above, we may also escalate a standalone action to a collaborative one. In more extreme circumstances, we would consider making public our concerns or submitting shareholder resolutions. However, when the lack of alignment between a company's management and its shareholders' long-term interests is sufficiently material and manifest, we consider the trust between shareholder and management to have been broken. In such circumstances, we are often minded to sell the position in the interest of our clients.

Collaborative Engagement

Effective collaboration that results in real impact can take a variety of forms. It can be company specific, or can relate to broader issues, sometimes of global significance. Combining resources, influence and expertise with other investors can mean both higher probability of success and bigger impact. This assumes alignment with others' objectives.

As signatories to initiatives and industry bodies such as the United Nations' Principles for Responsible Investment and the Task Force for Climate-Related Financial Disclosures that facilitate policies and collaborations, we are invited to join collaborative efforts that others have initiated.

We add our support to certain collaborative investor actions by including our name to a list of signatories to letters that aim to highlight issues to a large number of company leaders and beyond, to demonstrate that certain issues are both pressing and have broad support across the finance and investor industry.

For more information and enquiries regarding collective actions, please contact our Compliance Officer at the following address:

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