



Engagement Policy

This Engagement Policy (the “**Policy**”) sets out the approach to engagement and voting of Big Society Capital Limited in line with its obligations under the FCA’s UK Conduct of Business Sourcebook rules. This Policy applies to both the management of Big Society Capital’s proprietary capital and the management of social impact investments under delegated mandates from its clients.

Overview

We help build an investment ecosystem that supports enterprises to improve people’s lives. We are a social investment wholesaler in the UK social impact investment sector with the aim of delivering measurable positive impact as well as a sustainable financial return principally through investing in private market impact funds that in turn provide investment to social enterprises, charities and social purpose organisations. As such, we do not generally invest in UK listed companies.

Our investing activity is complemented and enabled by our work to catalyse systems change to build a thriving ecosystem that connects capital with social enterprises, charities and social purpose organisations. We engage with diverse stakeholders when delivering this objective which may be the same or different to our investment-led engagement activity.

This Policy is limited to the engagement activity we undertake specifically related to our investment activities.

We are an active investor that believes investment can play a significant role helping to deliver solutions to some of the most entrenched social challenges. We focus on building an understanding of the intersection of social issues, the sustainable business models that can bring about change and the fit with investor needs.

We actively engage with fund managers and other financial organisations we invest in (each, an “**Investee**”) in a targeted way during the due diligence, investment and portfolio management stages of the investment process. This seeks to ensure that the organisation’s investment approach, processes and operations minimise negative and maximise positive impacts for people, communities and the planet.

These aims and beliefs act as the foundation of our engagement approach with fund managers and other financial organisations we invest into as well as other stakeholders that contribute to the achievement of our investment objectives.

Engagement Philosophy

We define engagements as those interactions with Investees that have a clear objective for change, an action by our team and a resultant outcome.

We believe that we are well placed to add value at all stages of the investment process to support its Investees to achieve material social impact for people alongside a sustainable financial return.

We frame our strategic contribution and value as an investor and, where relevant, shareholder in line with our Impact Management Project's Investor Contribution Framework¹. Engaging actively is one core pillar of this framework together with signalling impact matters, growing new or undersupplied capital markets and providing flexible capital. Each social impact investment we make will meet these pillars to varying degrees depending on our value add can best be targeted.

Engagement through the Investment Process

Selection

Throughout the origination and due diligence process, we believe it is important to build a trusted relationship with the Investee which enables robust assessment and builds a shared understanding as the basis for effective portfolio management and engagement if the proposal is approved.

At the origination stage, we may play an active role in helping to shape the deal proposition with the investee and other stakeholders. This varies in intensity and may include feedback on aspects of the proposition such as the impact management methodology to more detailed co-development of a proposition. The degree of engagement at the origination stage will be determined by considering strategic alignment, our value add and the efficient use of resources.

During due diligence, we spend time with key individuals in the Investee, including undertaking dedicated management due diligence, and with other employees at to understand different perspectives and the culture of the Investee. In addition, we will speak with board members, other stakeholders and, where relevant for follow-on or adjacent funds, existing investees of the Investee. This approach helps us build diverse relationships for the long-term and a holistic view of the Investee and proposition to robustly assess the financial, impact on people and system change thesis of the investment.

Prospective investments are assessed for Environmental, Social and Governance (ESG) material risk factors in line with our Responsible Investment Policy. The Responsible Investment Policy outlines nine Responsible Business Principles that cover ESG factors which all Investees are expected to meet in substance and pass onto their investees. This is accompanied by a negative screen of excluded activities and industries. As part of this ESG assessment, we would seek to understand the Investee's own ESG policies and processes both in their own operations and how

¹ Further information is detailed by the Impact Management Project and is available at: <https://impactmanagementproject.com/impact-management/how-investors-manage-impact/>

they select and manage their investees. In line with our broader approach to engagement, we would seek to engage managers on their ESG practices where we believe we can be value add.

The due diligence assessment is presented to our Investment Committee in a standard format. This provides a holistic assessment of the strengths, weaknesses and risks of the proposition and the problem it is trying to solve, an assessment of the impact, systems change and financial cases, and a view of the Investee's ability to deliver the proposition. Where applicable, key actions and/or conditions to investment will be highlighted which are required before or after signing and which may be included in legal documentation. These actions may involve the deal team engaging actively with the Investee.

A draft impact canvas for the fund is prepared during due diligence and completed after approval and before signing which sets out an impact measurement plan and KPIs for the fund. This impact canvas acts as a basis for impact reporting and portfolio management and on which we can engage with the Investee.

Portfolio Management

We are an active portfolio manager delivering through two strands: performance monitoring and management, and intermediary support.

We monitor and manage the strategy, performance risk, capital structure, impact and governance of our investments to ensure the original investment thesis is delivered and the intended financial, impact on people and systems change returns are achieved. Throughout the portfolio management stage, we build on and strengthen the trusted relationships with the Investees that was developed during the due diligence stage. We do this by acting as partners, and not just investors. We meet the fund management team regularly, ordinarily on a quarterly basis for material investments, to review performance and any developments underway which is supported by reporting information submitted by the Investee. In addition, our Investment Committee meets with the Investee annually to formally review performance and our two-way engagement.

These regular meetings are supplemented by us holding or appointing nominees on voting or observer seats on many Investee Boards, Investment Committees and Advisory Committees where we actively engage to influence investment decisions and broader activities to maximise the financial, systems change and impact outcomes.

We believe that a resilient Investee ecosystem is important to achieve our strategic objectives and optimal investment performance. As a result, we engage with the Investees beyond managing specific investments to understand their areas of organisational development and how we can help them to address these areas. We do that by providing training, one-to-one tailored support and access to networks and expertise. In these instances, we set out clear objectives jointly with the Investee on the changes we want to see, our role and then review the outcomes on a regular basis.

Exercising Voting Rights

We do not ordinarily take direct equity stakes in companies and therefore have limited shareholder engagement activity. However, where we are a shareholder, we exercise our voting rights in a way that considers the effect of social impact and financial performance, and where relevant systems change. We use the understanding gained from our active portfolio management and close monitoring of our investment to inform all voting activity. Where appropriate and applicable, we cooperate with other shareholders.

Engaging with stakeholders

Working with other stakeholders and investors

We are an active participant in the social impact investment market. We undertake extensive engagement activity to complement and enable our investment activity to catalyse systems change as outlined in the Overview. Our dedicated Engagement Team aims to influence the supply of investment from asset owners, asset managers and investment intermediaries; demand for capital from charities, social enterprises and social purpose organisations; and to gain support from policy makers, regulators and representative bodies to ensure a supportive and enabling environment.

We may seek to collaborate with other investors that have also invested in our fund holdings where interests are aligned and the objective is material to improve the financial, impact or system change outcomes of the investment. Any collaboration is done with full consideration of conflicts of interest.

Communication with relevant stakeholders

Our communication activities are underpinned by our belief in transparency and adding value to relevant stakeholders. We achieve this by regularly communicating with external stakeholders via our Annual Report, Impact Report, monthly newsletters, and other updates via blogs and articles on our own website and third-party publications. These activities are supported by our dedicated Communications Team together with our Data and Portfolio Team who focus on collating, analysing and presenting data on our portfolio, the underlying investees of our Investees, and wider data on the social impact investment market.

Conflicts of Interest

We actively identify, report and mitigate actual or potential conflicts of interest relating to our engagement activities.

We have internal policies and procedures to manage our actual and potential conflicts of interest. These include a conflict of interest policy that sets out procedures and controls for identifying, managing, recording and, where relevant, disclosing actual or potential conflicts of interest, maintaining a conflicts of interest register and keeping an inventory of potential organisational conflicts and mitigants to manage them.