Quilter Investors: UK Stewardship Code

As a responsible investor Quilter Investors is committed to its role as a steward of clients' assets in order to protect and enhance long-term returns. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

We recognise the UK Stewardship Code ("the Code") as best practice. It aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Code is overseen by the Financial Reporting Council ("FRC") and complements the UK Corporate Governance Code for UK listed companies. The Code is directed primarily at institutional investors, by which is meant asset owners and asset managers with equity holdings in UK listed companies. Institutional investors may choose to outsource to external service providers some of the activities associated with stewardship. At Quilter Investors the significant majority of our clients are classified as retail customers. However, we believe that stewardship is important, no matter what the category of client, and therefore our response to the Stewardship Code aims to outline clearly how we conduct our stewardship activities. Below we set out how Quilter Investors adheres to the seven principles of the UK Stewardship Code.

Stewardship policy

Stewardship Code Principle 1:

"Institutional Investors should publicly disclose their policy on how they will discharge their stewardship responsibilities."

The aim of our stewardship activity is to protect our clients' interests and the value of their investments. Company shares usually carry voting rights and exercising these rights enables shareholders to express their view and engage with companies to support the creation of wealth; benefiting shareholders and the wider economy. As a responsible investor we will use voting rights (where appropriate) in order to further the interests of our clients and we have established a set of voting principles to guide our voting decisions.

Investment styles

On behalf of our clients, we invest in direct bonds and equities as well as collective vehicles such as open and closed ended funds. The approximate split of the assets we invest in is;

- *Funds 83%*
- *Direct Equities and Investment Trusts 12%*
- *Direct Fixed Interest 2%*

The remaining assets under our stewardship will be invested in cash or derivative instruments.

For direct UK equities, including investment trusts, we use the services of Glass Lewis (a proxy voting service provider) and use its recommendations as a basis for our engagement and voting. We apply our own views to the voting policy and therefore will not always follow the recommendations if we feel it is in the best interests of our clients to take a different course of action.

A significant proportion of the assets we invest in on behalf of our clients are funds managed by third parties. Where these funds invest in UK equities, we expect asset managers to adhere to the UK Stewardship Code and we expect them to apply their own voting and engagement policies to the funds they are managing on our behalf. It is important for asset management firms to retain stewardship powers so they are able to align stewardship and voting with the investment style and process for which they are responsible. Due diligence is undertaken on these asset management firms by our multi-asset and fund research teams, including their approach to stewardship and responsible investment.

Material Holdings

We have chosen to focus on our largest and most widely held positions where we can have most influence. Given the nature of our portfolios, these tend to be our investment trust holdings.

Exercising stewardship takes a variety of forms and the size of holdings affects the most appropriate method. At its simplest, this may be exercising proxy votes for companies in which we invest. However, where we have material positions held over a longer time horizon, stewardship may extend to fostering a relationship with companies that allow engagement, debate, and constructive challenge and, if necessary, encouraging change at the company. We focus this in-depth stewardship activity where we have material shareholdings, and as such greatest influence. The specific thresholds around which we make voting and engagement decisions will vary according to the percentage of share capital we control, the particular issue under consideration and the size of the company.

Conflicts of interest

Stewardship Code Principle 2:

"Investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed."

At Quilter Investors we have a robust conflicts of interest policy – for further information please visit our website.

www.quilterinvestors.com/corporate/about

It is possible that actual or perceived conflicts of interest may arise in relation to the execution of our stewardship activity. Should a potential conflict of interest be identified which may influence us to not act fairly, independently or objectively in the interests of our clients we will follow the voting recommendations of our third party proxy voting service provider.

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For example, where an employee of, or consultant to, Quilter Investors is a non-executive director of a company within our voting universe we will apply the guidance of our external proxy voting service provider.

Monitoring and escalation

Stewardship Code Principle 3:

"Institutional investors should monitor their investee companies."

It is a core part of our work to monitor investments and our teams of equity and fund analysts provide a dedicated investment research resource with no conflicting commitments. Alongside portfolio managers, the research teams monitor investee companies and third party fund managers on an on-going basis and may regularly meet company / fund management depending on the investment strategy.

Our monitoring includes but is not limited to;

- *An ongoing assessment of a company/fund's financial and operational performance*
- *The quality and credibility of strategy*
- *The markets and economies in which the company/fund operates*
- *The effectiveness of the company/fund manager's leadership*
- *The financial sustainability of the underlying holdings*
- *The quality of the company/fund's reporting and governance processes, including environmental and social issues*
- *The ethical behaviour of the company/fund manager and membership of its leadership team*

We also consider compliance with the UK Corporate Governance Code ("Governance Code") and where companies do not comply with the Governance Code, we will consider asking for an explanation for the non-compliance. Areas of particular interest include company strategy, continuing operational success, executive pay and, increasingly, the steps a company is taking regarding environmental management and the impact of climate change.

The information published by companies and funds, particularly financial statements and reports and accounts are important sources of information to assist in monitoring investments, but we also use other sources including financial research and information we obtain during the course of engagement with a company. Achieving change and avoiding risks are factors we take into account in reviewing holdings and the success of our activity.

In the course of our monitoring and engagement with company management, specific members of staff may become insiders, i.e. they are party to non-public market sensitive information. If a member of staff becomes an insider then they are prohibited from trading/dealing in the relevant security (or related securities), encouraging others to deal in the security (or related securities) or disclosing the information to anyone else.

Stewardship Code Principle 4:

"Institutional investors establish clear guidelines on when and how they will escalate their stewardship activities."

Where we hold direct positions in equities (including investment trusts) it is our preference to support the management of companies in which we have these holdings. We will therefore evaluate the actions and strategies of companies constructively, sometimes through meetings and other engagement with executive and non-executive directors of the board. However, where there is a threat to the value of the company, we will take steps to protect the value of our clients' investments.

We may consider taking one or more of the following actions:

- *Engaging with members of the company board*
- *Discussing or working with other shareholders on matters of mutual interest*
- *Voting contrary to the management proposals*
- *Selling the holding where we evaluate it is in the interests of our clients to do so or in extreme circumstances, we could requisition a general meeting.*
- *Examples of engagement with the boards of investment trusts:*
- *Following a period of increased and sustained discount widening coupled with poor NAV (net asset value) performance we entered into a dialogue with the board both directly and through the trust's corporate broker. Our objective was to explore potential ways of improving shareholder sentiment towards the stock and as a result a narrowing of the discount. Areas of discussion included increased buy-back activity, tender offer and removal of ownership restrictions. The board subsequently brought a number of resolutions to the AGM in April 2018 and these were passed by shareholders. These resolutions included the removal of the ownership limit and for the company to make a tender offer of up to US$300m worth of shares. We believe this outcome was in the interests of shareholders.*
- *We meet boards regularly to discuss board composition in order to ensure that there is the right mix of skills in place as well as the issue of raising further capital. We welcome meetings with boards in order to facilitate an on-going frank and informative discussion.*

We understand that there is merit in asset managers providing greater transparency in their communications with companies. However, it may not be in the interests of progressing discussion with a company; and at times, the nature of the conversation may be confidential.

Shareholders working collectively

Stewardship Code Principle 5:

"Institutional investors should be willing to act collectively with other investors where appropriate."

Working collaboratively with other investors can increase the level of influence over companies and it may therefore be desirable to encourage them to address shareholder concerns. The decision to work collaboratively is taken on a case by case basis but in all such conversations, care is required to avoid inadvertently creating concert parties or inadvertently providing inside information. We are

members either through Quilter plc or as Quilter Investors of several formal or informal groups which may facilitate collaboration with other investors, including:

- *The UK Investment Association*
- *Principles for Responsible Investment (PRI)*
- *UKSIF (The UK Sustainable Investment and Finance Association)*

- *The Institutional Investors Group on Climate Change*
- *International Corporate Governance Network (ICGN)*
- *30% Club Investor Group*

Contact regarding collaborative engagement from institutional investments should be made to the Head of Investment, Quilter Investors, at **client.services@quilterinvestors.com**

Transparency and disclosure

Stewardship Code Principle 6:

"Institutional investors should have a clear policy on voting and disclosure of voting activity"

When implementing our voting principles, we will, on occasion, following engagement with the company, determine that it is appropriate to support resolutions that might be contrary to the outline policy we have adopted.

The resolutions on which we vote against or abstain may be seen in the record of our voting at company general meetings.

Our voting policy can be found on our website **www.quilterinvestors.com/corporate/about**

Stewardship Code Principle 7:

"Institutional investors should report periodically on their stewardship and voting activities."

When voting we are mindful that we must act in the best interests of all of our clients, and are committed to being open and transparent with respect to our stewardship activity. To support this transparency we produce a quarterly summary of our responsible investment activity. The reports are in a standard format, available to both clients and public, detailing how we voted each resolution and include explanatory notes where we have voted against management proposals. Past and present voting and stewardship reports can be found on our website.

We will use our discretion when disclosing our voting and engagement activity, and in some cases may choose not to name the company or the fund in question if we believe publicity is likely to prove counterproductive. Undertaking potentially sensitive engagement in public may lead to a defensive reaction and entrench views of company management. Therefore we often prefer confidential, constructive dialogue which enables a trust based relationship, permitting clear and frank communication and challenge.

The Stewardship Code states that companies signing up to the Code should obtain an independent opinion on their engagement and voting processes. We rely on Quilter's internal audit function to provide assurance of the stewardship processes.

This statement is reviewed annually and updated as necessary.

SK18376/218-1178
OMGI 06_18_0251