

Charles Stanley - UK Stewardship Code Statement

Overview

At Charles Stanley we pride ourselves on providing personalised investment management advice, assuming responsibility for helping our clients to grow their wealth and achieve their financial goals. While some clients may want to retain investment control, only requiring Charles Stanley to assist them in executing their investment decisions, almost half of our total assets under management comprise discretionary-managed clients, which is now the core of our business. Discretionary-managed clients are given their own investment manager who is entrusted to make investment decisions on their behalf based on their specific needs. For such clients, the investment manager will consider a range of issues such as the client's objectives, time horizon, risk appetite and ethical views in forming the investment advice. In order to provide this truly bespoke service to clients, our managers operate under an autonomous business model where they have complete independence over investment decisions. For this reason, it would be inappropriate to have an overarching investment policy.

The UK Stewardship Code is overseen and published by the FRC, an independent regulator overseeing financial reporting, accounting and auditing and corporate governance. The Code sets the benchmark for institutional investors to meet ownership obligations in respect of UK companies, and the FRC requires it to be applied on a "comply or explain" basis, meaning that where a firm chooses not to comply with a particular principle on the Code, it is compliant with the overall Code as long as this is properly disclosed and explained. This requirement is set out in COBS 2.2.3R as follows:

A firm, other than a venture capital firm, which is managing investments for a professional client that is not a natural person must disclose clearly on its website, or if it does not have a website in another accessible form:

- 1) the nature of its commitment to the Financial Reporting Council's Stewardship Code; or
- 2) where it does not commit to the Code, its alternative investment strategy.

Charles Stanley primarily manages the assets of retail investors; we have a limited number of professional clients. However, the FRC's terms of engagement nevertheless require us to disclose our policy in terms of how we exercise voting rights relating to investments held on behalf of our professional clients. For such clients, as appropriate, Charles Stanley may seek to engage and vote on any issue affecting the long term value of a company in which we have invested on our clients' behalf. Our position in relation to each of the Principles of the Stewardship Code is set out below:

Principle 1: Firms must publicly disclose their policy on how they will discharge their stewardship responsibilities.

As a financial services organisation, our primary responsibility is to maximise investment returns to our clients in accordance with our contractual relationships, and in our view this is always best achieved through the consistent identification of quality investment opportunities for our clients' funds, and to dispose of investment holdings where we are dissatisfied with that investment's prospects for growth. In this way, we see stewardship of investee companies as an integral part of the wider investment process and employ various methods of engaging and monitoring to achieve this. We do not outsource our stewardship responsibilities.

However, Charles Stanley recognises that the maximisation of client investment returns may sometimes require a greater level of engagement with investee companies, including entering into an active dialogue with investee company management, and the resources used for each such engagement will be managed according to the circumstances of each case.

Such circumstances are likely to be limited in practice for the following reasons:

- Under Charles Stanley's terms of business, our firm has the contractual right to vote only on behalf of clients where we have a discretionary investment management mandate. We do not have a similar contractual right to vote on behalf of investments held by our advisory and execution-only clients, where clients are solely responsible for exercising votes.
- Charles Stanley is a whole of market private client firm offering a broad range of investment services to our clients, who may be invested across a wide range of investments, and in all asset classes open to retail investors. As a consequence, at any one time our clients in aggregate may be invested in thousands of different securities. This necessarily reduces the typical aggregate holding size and thus the scope for direct engagement with the governance of investee companies, and instead favours an approach based on the identification of quality investment opportunities for our clients and the disposal of investment holdings where there is dissatisfaction with an investment's prospects for growth.
- Charles Stanley often accesses asset classes for its clients through collective investments, both active and passive. In this case there is considerably less scope for direct engagement with underlying investee companies held by the collective fund. Nevertheless, our fund research seeks evidence of good quality management and our monitoring processes include a detailed series of questions relating to a third party fund manager's adherence to the FRC's Stewardship Code and the UN Principles for Responsible Investment. This review is carried out at least annually on approximately 300 fund managers.

Principle 2: Firms must have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Charles Stanley is a wholly owned subsidiary of Charles Stanley Group PLC, a company whose shares are listed on the London Stock Exchange.

Our policy summary regarding conflicts of interest is regularly reviewed and any changes approved by the Board. It is set out in Our Services and Business Terms and available on our website [here](#).

Where Charles Stanley exercises its contractual right to vote the holdings of discretionary investment management clients, the votes would be exercised in the interests of clients.

Inevitably, conflicts of interest may arise from time to time, for example where there is voting on matters affecting both clients and Charles Stanley itself.

Examples of potential conflicts may exist where:

- Charles Stanley is the manager of a collective investment fund in which the firm's discretionary investment management clients are invested.
- The firm's discretionary investment management clients are invested in shares of Charles Stanley Group plc.

Where there is such a conflict that in our view cannot be readily resolved, the matter would be escalated to senior management for an independent decision on whether and how such shares should be voted.

Principle 3: Firms must monitor their investee companies.

While we maintain an autonomous business model, investment managers are able to rely on guidance from our in-house research division which provides specialist advice on asset allocation, stock selection and collective vehicle selection and therefore, engagement and monitoring will essentially be a function of the centralised investment research process. As a long-established UK investment firm, Charles Stanley has frequent opportunities to meet with the management of actual and prospective investee companies. Monitoring occurs around company financial reporting, in conjunction with news and announcements and when, for whatever reason, Charles Stanley might be conducting research into investment ideas.

Our research analysts meet regularly with investee companies and fund managers and corporate governance is one of the key areas considered among a wide range of issues such as strategy and investment performance. Where a company does not comply with the spirit of the UK Corporate Governance Code, in our opinion, we will consider its explanation as one factor in forming our overall view on whether the company represents a quality investment opportunity for our client. The views of the analysts are clearly expressed in their research output, which is made available to all investment managers. In the case of collective investments such as funds we routinely identify fund managers who are compliant with the Stewardship Code and UN Principles for Responsible Investment and this is detailed in our internal research for investment managers. However, investment managers have discretion over whether to follow the recommendations of the analysts.

As outlined above, where the higher costs of additional engagement appear justified in the context of those aggregate client holdings where we control the votes, we may seek to engage the board or management of the investee company.

From time to time, issuers of securities and their advisers may seek to engage with our firm in relation to a new issue of shares where there may be an element of inside information. All such enquiries must be directed through our New Issues Desk (NewIssuesDesk@Charles-Stanley.co.uk), which has processes for evaluating approaches and coordinating our firm's response as appropriate.

Principle 4: Firms must establish clear guidelines on when and how they will escalate their stewardship activities.

Where we have significant direct holdings in individual companies we may seek to act in the best interest of the clients by exercising any votes controlled by our firm. Where we have significant direct holdings in companies, our analysts may meet company management on a regular basis and would use these opportunities to ascertain that the company has satisfactory governance arrangements in place. If we consider that a company has governance arrangements which are not in the best interests of shareholders, we will seek to inform the company management of this fact or disinvest from the company. There are occasions when our analysts may encourage investment managers to vote in a way they deem to be in the best interests of shareholders, for example where major corporate events are taking place, such as a merger or takeover.

However, many investments held for our clients take the form of passive or collective investments which will hold a large number of underlying companies but where there is less scope to directly influence the governance of these companies. Our team of collective analysts carries out regular interviews with the managers of various collective funds. Their ongoing analysis and monitoring approach includes ascertaining whether the fund manager complies with the Stewardship Code and their approach to voting shares held in its funds. Compliance with the Code is recorded as part of each fund update report so that Charles Stanley investment managers can assess whether the funds they hold on behalf of clients meet this criterion.

Principle 5: Firms should be willing to act collectively with other investors where appropriate.

Where we deem it appropriate and effective, we will seek to engage collectively with other investors, and to escalate our activities in collaboration with them. Any such engagement would be on a case-by-case basis.

Through our membership of the UN Principles of Responsible Investment's (UN PRI) Collaborative Engagement Platform, we have worked with other members to exert influence over industries in which our clients have direct or indirect exposure when we believe there is scope for improvement in the standard of business practice as we view this to be in the long term interests of our clients. A key engagement we have been involved in is the Human Rights in the Extractive Industry initiative where the core aim is to assess how well target companies recognise the degree of human rights risks given the nature of their business and propose ways in which they can improve disclosure of their human rights practices to encourage better standards within the industry. Beyond that, we have taken the opportunity to meet directly with the management team of one of our investee companies to help us assess the potential financial and reputational risks from a major human rights incident that occurred at the company during the course of this engagement.

In general, we welcome any opportunity to work with our peers to engage with companies in which we invest to allow us greater influence in raising governance standards. Please contact compliance@charles-stanley.co.uk

Principle 6: Firms should have a clear policy on voting and disclosure of voting activity.

We believe voting is an effective method of engagement and support our clients in exercising their right to vote where possible. Our internal voting process ensures investment managers are notified every time they are entitled to vote their discretionary managed professional clients' shares.

As part of our ongoing work towards becoming more responsible investors, we carried out a comprehensive investigation into our voting process last year to see how we could improve the execution of our active ownership responsibilities. We concluded that due to the way in which our client's segregated accounts are configured, it would not be practicable to block vote discretionary clients' shares.

Although we generally look to support management of investee companies, we may abstain or vote against resolutions where proposals are deemed inconsistent with the interests of shareholders. In forming our opinions, we do not make use of external advisory services; were we to do so, however, we would not be bound to follow such advice, where we had a different view as to how our clients' interests are best served. Where we believe it would assist shareholder interests, we may inform the company in advance of our voting intentions.

We do not engage in securities lending with client holdings.

Principle 7: Firms should report periodically on their stewardship and voting activities.

We consider that our clients rely on us to ensure that when we invest in companies on their behalf we do so with their best interests in mind, which includes reviewing whether the company has a satisfactory governance process. For this reason it is not the current policy of Charles Stanley to report routinely to clients on how we have discharged our responsibilities under the Code in relation to their holdings or any other client's holdings. We do not publish our voting records on this website or elsewhere due to the potential risk that our approach to engagement may be misunderstood without proper knowledge of our business model.

We do not seek independent assurance of our stewardship activities and voting performance, on the basis that the level of engagement and the scale of the firm's activities for clients would not justify the additional expense to clients.

We are happy to disclose and report such matters directly to clients on request, at frequencies to be agreed. Such disclosure would relate solely to votes exercised on behalf of the requesting client.