

## Stewardship policy statement – Liontrust Investments Ltd (LIL)

### Introduction

The investment aim of the Sustainable Investment team is to manage the allocation of the capital of its funds and institutional clients in accordance with their investment objectives and to protect and enhance their value. Our statement of compliance with the UK Stewardship Code is written on behalf of the LIL's Sustainable Investment team as an investment manager. We are keen to maintain effective relationships with the companies in which we invest. We do this through regular engagement with the management of investee companies and considered use of our voting rights in their shares. This policy statement sets out how we discharge our stewardship responsibilities.

### *1. Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities*

We believe that good governance of the companies in which we invest is an essential part of creating shareholder value and delivering investment performance for our clients. We also believe that sustainability or environmental, social and governance (ESG) factors create risks and opportunities for companies and these should be managed appropriately. The fundamental principle of our corporate governance policy is to protect and enhance the economic interests of our clients. In any situation, our actions will always be determined by this principle.

Our investment managers build and manage their portfolios based on a combination of internal and external research, internal discussions, meetings with companies, portfolio construction, monitoring, voting and engagement activities. In addition to our investment team's analysis and broker research, the Liontrust Sustainable Investment team uses the services of Ethix ISS, MSCI, Ethical Screening and Sustainalytics to analyse and monitor our holdings.

We recognise that regulation, levels of disclosure and management accountability vary between markets and that differences in national market regulation means that a single set of detailed guidelines may not always be appropriate. Where overseas corporate governance codes are consistent with our overall principles, we will adopt these. At a minimum, we would expect companies to comply with the accepted corporate governance standards in their domestic market or to explain why doing so is not in the interests of shareholders.

### **Our policy on governance oversight of investee companies and proxy voting covers:**

- How we monitor the corporate governance performance of investee companies, engage in dialogue and intervene where appropriate.
- How we report to our clients.
- How we carry out proxy voting and exercise voting rights in the best interests of our clients.

**These are the guiding principles by which we have formulated our corporate governance policy:**

1. **Accountability:** By raising capital from shareholders, companies commit themselves to earning an investment return on that capital. The board of that company must therefore be accountable to shareholders for the use of their capital.
2. **Shareholders' interests:** Companies and their boards should be structured with appropriate checks and balances to ensure they operate with integrity and in shareholders' long-term interests. Shareholders also have a right to timely and detailed information on the financial performance of the companies in which they invest.
3. **Voting rights:** We believe voting rights are central to the rights of ownership.
4. **Beneficial ownership:** All shareholdings should be voted in the economic interest of the underlying shareholders or trust beneficiaries.
5. **Engagement:** Although voting takes place on a number of issues at annual and extraordinary general meetings (AGM/EGM), there are five principal areas which we will address in operating our voting policy:
  - Board structure and election of directors.
  - Directors' remuneration.
  - Audit and appointment of auditors.
  - Reporting and financial disclosure.
  - Technical issues, particularly shares without pre-emption rights.

**We publish our policy on governance oversight of investee companies and proxy voting on our website under:**

[www.liontrust.co.uk/fund-teams/sustainable-investment-team](http://www.liontrust.co.uk/fund-teams/sustainable-investment-team)

The Sustainable Investment team is responsible for ensuring votes are instructed in line with intentions. Investment managers and analysts are responsible for disclosing any potential conflicts of interest relating to a proxy vote. The corporate governance manager is responsible for vote execution. ISS is responsible for casting these votes in line with the Sustainable Investment team's specific instructions. The corporate governance manager is responsible for ensuring that full and adequate records of proxy voting are retained, including the investment manager's rationale for voting. The corporate governance manager is responsible for ensuring that an annual review of this policy is carried out and will also consider specific proxy voting matters as and when deemed necessary.

All funds operate within a defined risk controlled environment.

***2. Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed***

The Sustainable Investment team is committed to maintaining appropriate arrangements to identify, manage and mitigate actual and potential conflicts of interest with the objective of ensuring that our shareholders and clients are not adversely affected.

It is our duty to act in the best interests of our shareholders and clients in the conduct of our investment business, including when engaging with investee companies and exercising our rights as shareholders.

**The following are examples of conflicts and the arrangements for managing these conflicts (this is not an exhaustive list):**

- The corporate governance structure and organisational arrangements we have implemented provide for the segregation of duties and so prevents conflict arising through preventing and ensuring that no one individual can exercise undue or inappropriate influence over a particular process.
- Segregation of duties and supervision for persons engaged in different business activities, including procedures for ensuring appropriate communication between business functions.
- Personal account dealing restrictions that are applicable to all employees and relevant persons.
- Remuneration policies that are designed to promote sound and effective risk management and align the interests of the team and clients.
- Limitation and management of personal conflicts of interest, including policies governing the offering and acceptance of gifts and hospitality involving third parties.
- Team members are required to notify the company of any outside business interests and external directorships.

All policies and procedures for identification and management of conflicts of interest are subject to, as a minimum, an annual review and any significant issues will be reported to the Head of Sustainable Investment as necessary. Where issues require escalation, our compliance and legal teams are consulted.

The policy applies to all team members and training is provided on an annual basis.

**We publish our conflict of interest policy on our website under:**

<http://www.liontrust.co.uk/investor-relations/governance/governance-policies>

### ***3. Institutional investors should monitor their investee companies***

We continually monitor investee companies and assess a range of issues that we believe might result in a future opportunity or risk including environmental, social, governance (ESG) and financial factors.

We are keen to build relationships with senior management of companies and understand their strategy.

Where we identify departures from established governance codes, we assess any explanations given. Where appropriate, we will notify the company as soon as possible of our concerns with a view to entering dialogue on the issue.

Our investment approach is one of full integration. Each member of the team is a fund manager or investment analyst with sole responsibility for all aspects of traditional and ESG investment relating to the stocks they cover. Coverage is divided by GICS sector. The Industrials analyst for example has sole responsibility for monitoring the major trends in the Industrials sector, identifying Industrials investment opportunities, assessing the ESG performance of those opportunities, integrating that information into forecast earnings or valuation, submitting Buy, Sell or Hold recommendations for the funds, engaging with those companies and subsequently conducting all proxy voting for investee companies.

The team believes that a combination of screening, thematic and integration ESG incorporation strategies is the best way to apply LIL's investment philosophy.

**Our screening criteria for the Sustainable Future funds are found on our website under:**

[www.liontrust.co.uk/fund-teams/sustainable-investment-team](http://www.liontrust.co.uk/fund-teams/sustainable-investment-team)

The team reviews its screening criteria for the Sustainable Future funds in collaboration with its independent external advisory committee that meets on a triannual basis. Any change to the screening criteria is notified to clients and/or beneficiaries via the Insight articles that can be found on our website: [www.liontrust.co.uk/what-we-think/blogs](http://www.liontrust.co.uk/what-we-think/blogs). If the team needs to adjust its portfolios owing to a change to its screening criteria, it has six months from the change to sell the relevant securities.

All engagement topics are agreed by the investment team with regular updates on progress provided at month engagement meetings.

Records are kept of meetings with company management and of significant developments arising from our ongoing reviews of portfolio companies. In 2016, the team met with management of 242 companies and engaged with 101 companies on ESG issues.

As part of our engagements with investee companies, we may choose to become insiders from time to time for specific periods and we are willing to do this provided we have given explicit prior consent. We manage the insider process by having appropriate controls in place to ensure that no team members trade when in possession of inside information.

#### ***4. Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities***

We believe monitoring and engagement are an essential part of being a shareholder in a company. It allows us to improve our understanding of investee companies and their governance structures so that our voting decisions may be better informed. The materiality and immediacy of a given issue will generally determine the level of our engagement.

To identify areas in which there are governance concerns, we use a range of resources including our own fundamental research. We hold regular meetings with the management of the companies in which we invest to discuss strategy, sustainability and performance, and to review management processes against the principles and best practice outlined above.

At a minimum, we would expect companies to comply with the accepted corporate governance standards in their domestic market or to explain why not doing so is not in the interests of shareholders. We believe that well-managed companies will report on material social and environmental risks and opportunities and explain how these are managed. As these are often not voting issues, we may engage directly with company management or the board where we believe there is the potential for a material impact on shareholder returns.

We adopt a case-by-case approach to engaging on material governance, environmental or social issues. We will engage with management in an appropriate manner and make a record of this engagement – this may be by conference call, letter or by seeking access to the board chair person or directors. We also aim to participate in collaborative engagement where appropriate.

Where we believe that shareholder value is threatened or is not being realised, we may request that the board takes appropriate action. In most cases, a robust private dialogue with executive management, non-executive directors and company advisers is our preferred way to protect our clients' interests. We will also engage with the chair person of the board or the senior independent director where appropriate.

If we receive an unsatisfactory response, we will usually either sell the shares to protect our clients' assets, contact other shareholders to discuss joint intervention or publicly oppose management who refuse to act on our concerns.

### ***5. Institutional investors should be willing to act collectively with other investors where appropriate***

We would expect to consider the appropriateness of public action, and/or collective action in collaboration with other shareholders or a representative body, in the event of financial, ESG or legal circumstances with the potential to materially affect the company. The team prioritises collaborative engagements where they fit with the team's engagement priorities and where the team is more likely to succeed with the engagement objective through collaboration.

The Sustainable Investment team is actively involved in the PRI and are a member of the PRI Listed Equity Advisory Committee. We have representatives on the PRI Sustainable Palm Oil Investor Working Group, PRI Global Investor Taskforce on Corporate Tax Responsibility and work with the PRI Engagement on Water Risks.

We also play key roles in Sustainable Supply Chain engagement, in particular our action on the Bangladesh and the Modern Slavery Act; Integration through our former Chair of the UNPRI Integration Working Group and Natural Capital valuation through publication and stimulus research.

Anyone who wishes to discuss the possibility of collective engagement should please email [sinead.lennon@liontrust.co.uk](mailto:sinead.lennon@liontrust.co.uk).

### ***6. Institutional investors should have a clear policy on voting and disclosure of voting activity***

Our Proxy Voting policy applies to clients who have delegated responsibility for voting on their holdings to the Liontrust Sustainable Investment team. The primary purpose of an investment company is to create sustainable value for its shareowners. Our Proxy Voting Policy is based on best practice globally. Our custom policy is updated at least annually, taking into account emerging issues and trends, the evolution of market standards and regulatory changes. The policy considers market-specific recommended best practices, transparency and disclosure when addressing issues such as board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions and social/environmental issues.

We assess voting matters on a case-by-case basis, taking into account a company's circumstances but are guided by our over-arching principles on good corporate governance. We recognise that regulatory frameworks vary across markets and that corporate governance practices differ internationally so will normally vote on specific issues in line with the proxy guidelines for the relevant market. Where a proposal is inconsistent with our principles and guidelines, we will consider voting against the

proposal. Where we abstain or vote against an investee company's recommendation and have a significant voting interest in the company, we endeavour to discuss the reasons for our decision with the investee company where practicable.

**Although voting takes place on a number of issues at annual and extraordinary general meetings (AGMs/EGMs), there are five principal areas which we will address in operating our voting policy:**

- Board structure and election of directors.
- Directors remuneration.
- Audit and appointment of auditors.
- Reporting and financial disclosure.
- Technical issues, particularly shares without pre-emption rights.

The Liontrust Sustainable Investment team is responsible for ensuring votes are instructed in line with intentions. Members of the team are responsible for disclosing any potential conflicts of interest relating to a proxy vote. The Corporate Governance manager is responsible for vote execution. ISS is responsible for casting these votes in line with the team's specific instructions. The Corporate Governance manager is responsible for ensuring that full and adequate records of proxy voting are retained, including the fund manager's rationale for voting.

**We publish our policy on governance oversight of investee companies and proxy voting on our website under:**

[www.liontrust.co.uk/fund-teams/sustainable-investment-team](http://www.liontrust.co.uk/fund-teams/sustainable-investment-team)

**We publish quarterly voting record on our website under:**

[www.liontrust.co.uk/fund-teams/sustainable-investment-team](http://www.liontrust.co.uk/fund-teams/sustainable-investment-team)

We do not currently undertake any stock lending activities.

### ***7. Institutional investors should report periodically on their stewardship and voting activities***

**We publically disclose on our website our stewardship activities including relevant engagement and thematic articles that can be found on our website ([www.liontrust.co.uk/what-we-think/blogs](http://www.liontrust.co.uk/what-we-think/blogs)), our quarterly voting records and rationales can be found on the team page:**

[www.liontrust.co.uk/fund-teams/sustainable-investment-team](http://www.liontrust.co.uk/fund-teams/sustainable-investment-team)

Occasionally, our engagements with investee companies concern matters that are confidential and/or where disclosure of our engagement activities might be counterproductive or harm our clients' best interests. In such circumstances, which are exceptional, confidentiality is paramount to achieving the stewardship objective and therefore the engagement is not reported to our clients.

Under Principle 7, asset managers that sign up to the code should obtain an independent opinion on their engagement and voting process. We obtained an independent opinion on our engagement and voting processes under the UK standard AAF 01/06 for the year ending 2014. Given our recent

acquisition by Liontrust plc we are currently reviewing our Corporate Governance and Stewardship process for the group.