The UK Stewardship Code

Introduction

The UK Stewardship Code was adopted by the Financial Reporting Council (FRC) in July 2010 and subsequently updated in September 2012. Its aim is to set out good practice for institutional investors when engaging primarily with the UK listed companies with which they invest.

The cornerstone of Waverton Investment Management Limited (“Waverton”) is the discretionary management of investment portfolios for private individuals, related family interests and charities, via segregated portfolios or through specialist funds. Waverton’s approach is to strive for superior returns for our clients by investing in what we believe to be the best ideas worldwide, be that in individual stocks, funds, fixed interest or alternative asset classes. We have a dynamic investment style with capital preservation a central theme. This means that portfolios will only invest in companies and funds which meet our strict investment criteria and in the absence of compelling ideas our portfolios will retain high levels of liquidity.

Our overriding goal is to identify what we believe to be the most attractive companies worldwide, and individual investment decisions are based on selecting companies with above average growth and earnings prospects in our chosen sectors. We search for outstanding companies with enduring franchises, strong and motivated management, and the potential for above average operating results over time. A core list of stocks is monitored and reviewed on a regular basis. Waverton’s stewardship responsibilities include a procedure for Global Proxy Voting.

Companies with poor governance or a questionable moral or environmental track record can seldom be qualified as ‘best in class’, so at the core of Waverton’s stance on these issues is not to invest in companies which require reform or active policing by shareholders.

Waverton takes its responsibilities as a shareholder seriously regardless of how small our proportionate impact might be.
Waverton's adherence to The UK Stewardship Code:

In July 2010 the Financial Reporting Council issued a statement outlining seven principles which aim to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The code was subsequently updated in September 2012. Waverton's response to the Stewardship Code principles cover all asset classes in which we invest and how we apply them are set out below:

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

Waverton recognises that we have a duty to act in the best, long-term interest of our clients. We consider that this duty includes performing the stewardship role in a manner that enables Waverton to add value to clients as shareholders of companies. Our position in the investment chain means that we act on behalf of a number of retail, professional and institutional investors in our company engagement and in due course through the purchase or disposal of equity in a company or debt securities.

Waverton’s stewardship responsibilities aim to enhance and protect the value for the clients. This is achieved through undertaking the following broad areas of activity:

i) Our investment process includes analysis of the governance profiles of the companies in which we invest by our stock and sector specialists in order to identify outliers requiring further engagement. This is done through internal and external research, analysis and contact with the investee company at the initial stages of our research and post-investment.

ii) Continued research of, and engagement with, investee companies, in order to understand issues and promote best practice; this is done through the portfolio managers and sector specialists engaging in regular meetings with the company and through third-party analysts. Topics where we would seek particular engagement are dependent on the type of investee company but include topics that we consider could affect shareholder value or are not aligned with creating shareholder value such as executive remuneration.

iii) Assessment and monitoring of Environmental, Social and Governance issues using a specialist third-party data provider, where we believe they have the potential to impact the valuation. This data provider allows both positive and negative screening of investee companies to determine their alignment with Waverton’s stewardship responsibilities.

iv) To help us engage, vote and monitor our activity with investee companies, Waverton has partnered with Glass-Lewis, the largest independent voting advisory service provider. Waverton will use proxy voting where we feel there is an opportunity to enhance or protect shareholder value.

Where issues of significant concern are identified, these are escalated at Waverton and discussed at appropriate forums to determine the appropriate course of action. Those involved in the decision-making process include, but not limited to, the Head of Private Clients, the Head of Investment Research, the Head of Equities, and where necessary, the Chief Executive Officer.
Ultimately, where levels of management engagement have been exhausted and we still believe that shareholder value is being threatened we will dispose of our shareholding in order to protect shareholder value.

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

Waverton is aware that stewardship activities may lead to conflicts of interest but will always aim to act in the best interest of its clients should such conflicts arise and when considering matters such as voting and company engagement. This is notwithstanding Waverton’s roles and responsibilities to comply with the UK’s Financial Conduct Authority Principle 6 (a firm must pay due regard to the interests of its customers and treat them fairly).

Waverton maintains a Conflicts of Interest policy, which identifies applicable conflicts and high-level controls and processes in place to mitigate the risk of client detriment. All staff undergo strict training and guidance on policies and procedures where conflicts of interest arise, such as gifts and hospitality as well as personal account dealing.

Conflicts of interest are mapped and categorised on a conflicts register with the relevant associated controls considered, implemented and periodically reviewed and tested. Where a particular client relationship raises a potential conflict this will be assessed by the Risk Committee and any necessary controls put in place to ensure the conflict does not crystallise in a manner that unfairly benefits one client over another.

Where the interests of clients diverge action will as far as possible be taken which considers the individual circumstances of the clients’ where stewardship is concerned. Again this would be escalated to the Risk Committee to consider the appropriate response to the conflict.

Furthermore, Waverton has established formal barriers (Chinese Walls) designed to restrict the flow of information between Waverton’s various back office divisions to Waverton’s investment professionals, as well as in order to maintain the integrity and independence of our decisions and engagement activity and avoid the spread of non-public information.

Where Waverton invest on behalf of clients in in-house pooled vehicles, Waverton has discretion to vote on behalf of the clients and will ensure this is in clients’ best interests. Currently transactions in shares of Waverton or its parent company are not undertaken on behalf of discretionary managed clients.

Our Conflicts of Interest Policy can be found on our website and provides further details of our approach to managing conflicts of interest:

https://www.waverton.co.uk/legal-and-regulatory

3. Institutional investors should monitor their investee companies.

Waverton recognises that we have a duty to act in the best, long-term interest of our clients. We seek disclosure on the materiality of the issues that affect the companies in which we invest and this is reflected in our investment approach.
Waverton is engaged in active portfolio management and our fund managers are given the freedom to invest as they see fit, subject to the constraints set by each fund or the objectives of investment mandates, all of which is subsequently monitored. Investee company monitoring includes a study of company statements and third party reports, an understanding of the issues to be discussed at public meetings, and attendance of those meetings where necessary and direct meetings with company management. Waverton will take into account all internal and external analyst reports on investee companies as part of the monitoring process. The aim of this is to identify, as early as possible, instances where there is the potential of loss in investment value. To mitigate the risk of this occurring, Waverton will take proactive steps to dispose the holdings where required.

Waverton also collaborates with Glass-Lewis, the largest independent voting advisory service, which assists with engagement, voting and monitoring of investee companies. Where appropriate, Waverton will attend key AGMs where there is a significant shareholding.

Where Waverton deems it appropriate, we will enter into active dialogue with investee companies, being cognisant not to become insiders or receive material non-public information, which may preclude us from dealing in the shares of the company concerned, and this is made clear in meetings with companies. Where Waverton inadvertently becomes an insider to investee companies, Waverton will ensure it complies with the regulatory requirements and prohibit further investments or disposals pending the release of the material non-public information into the public domain or otherwise notified by the investee company.

Where an investee company deviates from the UK Corporate Governance Code (or equivalent overseas codes, where they exist), Waverton will give due consideration to the explanation where it is given and make an assessment on a case by case basis determining the risks to shareholder value created by the nature of the deviation. This is factored into Waverton’s investment research and stock recommendation process.

The explanation will be escalated to and reviewed by senior management, including the Head of Private Clients, Head of Investment Research, and where required, the Head of Legal and Compliance. If the explanation is deemed unsatisfactory then we will intervene and attempt to offer guidance to bring the company back on course. However if they still deviate from the Code then we will consider terminating the relationship and disposing of our holdings.

4. Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Where Waverton has identified concerns or issues with investee companies these will in the first instance be discussed with our contact at the investee company. If required these concerns will be escalated through company management where we will request meetings with the most senior individuals at a company to raise our concerns.

In order to protect our clients’ interests and the value of shareholdings, where Waverton has concerns about an issue with an investee company that cannot be resolved these will be escalated to executive management. Where appropriate, we will hold joint engagement meetings with other investors who share our concerns. In extremis, where we are able, we would consider submitting a shareholder resolution, or requisitioning an EGM in order to bring about change, or to protect our clients’ interests. As part of the investment research and ongoing review process, Waverton will aim to attend investee company roadshows and, where available, events held by
investee company management to engage with and challenge the practices implemented by the investee company.

The focus for such intervention is on companies where Waverton has a meaningful shareholding, as this is where we have the opportunity to create and preserve most shareholder value for our clients. However, this does not mean we restrict our engagement purely to major holdings. Waverton does not have an internal threshold to filter when intervention is required; this is considered on a case-by-case basis with the view to achieving the best possible results for our clients.

Whilst ultimately issues will be assessed on a case-by-case basis, areas where Waverton would look to intervene include, but are not limited to:

- Where remuneration proposals are not in line with creating long-term shareholder value;
- Where there are material concerns over the investee company’s divergence from its strategic goals; and
- Where a company’s actions could trigger reputational risk which affect long-term shareholder value, including in relation to environmental and social matters.

Escalation of concerns by Waverton are recorded and kept on file to be made available to interested parties.

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

In the first instance Waverton would engage directly with the companies in which it is invested. Subject to applicable laws and regulations in the relevant jurisdictions, Waverton would seek to work with other investors through formal or informal groups in collective engagement exercises with companies where appropriate, in order to enhance the effectiveness of our engagement and obtain the best result for our clients.

Where Waverton acts collectively, we pay due regard to and consider issues that may give rise to conflicts of interest as well as the potential to become an insider to material non-public information. The circumstances in which collective engagement may be considered are where Waverton has concerns in relation to a company in which we invest, and such concerns are shared by other investors thus enhancing the potential effectiveness.

In addition Waverton is a member of various industry forums and engages in discussions and topics collectively through these forums.

Investors interested in collective engagement should contact in the first instance the Waverton Compliance team at compliance@waverton.co.uk.

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

Waverton understands and believes our fiduciary responsibility includes actively voting on the companies in which we invest. We believe this is one of the ways we can encourage a company
to focus on long-term shareholder value creation. To help us engage, vote and monitor our activity, we have collaborated with Glass-Lewis, the largest independent voting advisory service.

Waverton would not simply always support the Board of the Investee Company but seeks to ensure there is a material client outcome of not doing so. Waverton Investment Management will not forward to the Client any circulars, notices or proxy cards received in respect of investments comprised in the Portfolio.

Waverton acts as a discretionary manager and will therefore be entitled at its discretion and without notice to the Client to procure or to refrain from procuring the exercise of voting and other rights and privileges attaching to the investments comprised in the Portfolio and to accede or refrain from acceding to any compromise or arrangement in relation to any scheme of arrangement or scheme for reconstruction or amalgamation involving any such investment.

Whilst the Stewardship Code guidance recommends voting all shares, Waverton have determined that this will not be appropriate in all cases primarily due to the size of the firm and likely impact of voting each share held.

Waverton shall be entitled to procure the exercise of any voting rights attaching to the Portfolio’s holding of Collective Investment Schemes or closed-ended investment funds operated or advised by Waverton or an Associate (each a “Connected Fund”), and shall be entitled to count such holdings for the purposes of constituting a quorum at a general meeting of any Connected Fund. Waverton shall act in the best interests of the Client in so voting.

Details of proxy voting records are available on request and include summary information of where we have abstained or voted against the Board of Investee Companies. Waverton does not partake in stock lending.

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

Waverton maintains detailed records of its stewardship and voting activities. Due to the nature of this information, and the potential confidentiality and sensitivity of such information, it is made available to clients and potential clients on request.

Waverton obtains an annual independent opinion on stewardship engagement and voting processes and this has been undertaken within the last 12 months. Access to this assurance report is available on request.

Specific issues or further information should be directed to Christopher Rose, Waverton’s Head of Private Clients.