

UK Stewardship Code Statement



Rothschild & Co Wealth Management UK Limited

March 2018



Introduction

Rothschild & Co Wealth Management UK Limited (“WM UK”) manages portfolios on behalf of private clients, foundations and charities. Our investment philosophy is to preserve and grow the value of our clients’ assets in real terms, over the long term. In order to achieve this, we invest our clients’ capital in a diversified portfolio of assets, which includes equities and bonds held both directly and indirectly via funds.

We support the UK Stewardship Code (“the Code”) which is overseen by the Financial Reporting Council (FRC). This Code sets out the responsibilities of institutional shareholders (such as WM UK) in respect of investee companies. While the focus of the code is primarily on proactive engagement with UK companies, it also serves as a useful framework for our engagement with companies listed in other regions.

This statement sets out how WM UK applies the seven principles of the Code and is publicly available on our website www.rothschildandco.com/en/legal-information

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

We seek to be responsible custodians of our clients' capital, investing in a way that is sensible, focused and patient. This includes recognising our wider stewardship responsibilities and the role these play in protecting and enhancing the long-term value of our clients' investments. Stewardship is an integral part of our investment approach.

We acknowledge that stewardship can be exercised in many ways, both for direct holdings and funds managed by third parties. As part of our stewardship commitment we will exercise our proxy voting rights for our direct holdings, where practicable. The depth of our team combined with a concentrated universe of investee companies enables us to conduct proxy voting research internally, rather than through outsourcing. We engage on a regular basis with our investee companies and enter constructive dialogue with management and board members when necessary, in furtherance of our clients' best interests.

Our investment approach is rooted in proprietary research and financial analysis. This research includes considering environmental, social and corporate governance (ESG) factors.

In the case of directly held equities, we conduct deep, fundamentally driven, bottom-up research, on all aspects of a company and its management, in order to assess the company's ability to operate profitably over the long term. This includes analysis of risks such as: regulatory action; brand impairment; loss of bargaining power with customers or suppliers; trade embargoes; loss of access to capital markets; and loss of competitive position. We also perform analysis of company strategy, performance, capital structure and various corporate governance issues; and ESG issues. For ESG issues, in addition to our own proprietary research we also engage a specialist external provider.

When investing in funds managed by third parties, wherever possible, we look for managers who share our philosophy and maintain a regular dialogue with them to monitor this. Through regular engagement with these managers, we fully understand their approach to investment analysis. In some cases, our third-party fund managers publish ESG policies themselves which we review.

On an annual basis we engage with third party fund managers requesting details of ESG related activity including:

- Terminating research activity on a company, or selling a company where environmental, social, or governance concerns may impair the business's future earnings prospects.
- Engaging with company management on concerns around environmental, social, or governance factors.
- Actively voting shares with environmental, social or governance considerations as a key driver.

Oversight of our stewardship activities and commitments lies with the Portfolio Managers. Finally, we aim to review our Stewardship Code statement annually.

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

As an advice-led business we do not suffer from many of the conflicts of interest which can trouble other institutions. We do not have 'products' to sell to clients, nor do we have proprietary trading businesses or in-house brokerage desks. Nevertheless, the Rothschild & Co Group and WM UK have conflicts of interest policies and a copy of WM UK's Conflicts of Interest Policy is publicly available on our website www.rothschildandco.com/en/legal-information

Our Conflicts of Interest Policy aims to ensure that WM UK pays due regard to the interests of each of its clients and manages any potential conflicts of interest fairly and effectively. In that regard, our policy encompasses all our activities including voting and engagement. Potential conflicts specific to our stewardship responsibilities may, for example, arise when a director of an investee company standing for (re-)election is also a client, or the interests of different WM UK clients diverge.

When conflicts are identified we will follow our standard processes to ensure that they are dealt with effectively.

Our policies can be summarised below:

- a. **Management** WM UK operates internal controls and undertakes monitoring to assist in complying with relevant local and cross-jurisdictional regulations including the FCA's Conduct of Business rules and the rules relating to conflicts of interest set out in those rules.

- b. **Disclosure** Where the elimination or management of any conflict may not be practical or deemed suitable enough to ensure with reasonable confidence that the interests of clients are protected, it may be deemed appropriate to disclose the conflict to the affected clients. Disclosure helps clients to assess the service that they are being offered in light of WM UK's own interests and to decide on the extent (if any) to which they will rely on the service.
- c. **Escalation** Where appropriate, a conflict may be escalated to the Rothschild & Co Board for a decision to be taken as to suitable action.
- d. **Termination** Some conflicts could have such a serious potential impact on WM UK or its clients that the only way to adequately manage those conflicts will be to avoid them. In such cases disclosing the conflicts and imposing internal controls will be inadequate. Where this is the case, the activity to which the conflict relates may need to be terminated.

In accordance with our Treating Customers Fairly obligations, WM UK does not provide services in a manner calculated to advance one client's interest unfairly ahead of another client's interest. Furthermore, WM UK should neither advise, nor deal in relation to a transaction in which it has a material interest unless it has taken reasonable steps to ensure the fair treatment of the client or, if this is not possible, ensure it has disclosed that material interest or conflict to a client fairly.

Principle 3: Institutional investors should monitor their investee companies

We devote a significant amount of time to the ongoing monitoring of our investee companies in order to ensure we keep up to date with developments which could affect shareholder returns. As detailed below, company monitoring can take various forms depending on the context, and is carried out continuously.

The main focus of our monitoring work is the ongoing operational performance of the underlying business, for which we develop "roadmaps" prior to investing. For each holding we review the company's periodic reporting and monitor news flow to identify consistency with, or deviations from, our expectations. This includes reviewing topics such as operating performance, leadership effectiveness, reporting standards and corporate governance, as well as ESG performance and reporting. We attend industry conferences and investor days organised by our investee companies and we may also make

contact with customers and competitors as part of our initial research and ongoing monitoring processes.

When we deem further engagement necessary we may meet with management and board members. Significant company developments in these areas, including departures from the UK Corporate Governance Code where applicable, may be escalated accordingly. Our escalation options are outlined under the next principle.

Periodically we will fully review our investment case for each direct holding asking:

- **Is the competitive position changing?** This is the overarching question to address and should consider both the prospects of the industry and the strength of the company's position within it.
- **Is the investment thesis intact?** This addresses our underlying investment thesis and the consistency with which things have progressed in-line with our roadmap or otherwise.
- **Have any new questions arisen?** No investment is likely to remain static and it may be that over time, even if the initial thesis remains suitable, new and potentially important questions need to be addressed.

While the most important aspects of the investment case will have been adequately addressed prior to purchase, invariably there will be some smaller or longer-term factors requiring further work which are less time sensitive but need to be addressed. This is a continual process of understanding the companies we are invested in to a greater depth.

In addition to our proprietary research, we make use of ESG research and ratings on our investee companies from our external provider, Sustainalytics. This enables us to utilise additional inputs and insights for our ongoing monitoring.

Although not a regular occurrence, where we are made an insider by dint of information provided by an investee company, corporate broker (or other source), our policy restricts trading until the information is publicly available. Internal guidelines and procedures apply when we become an insider, and potential conflicts of interest are managed by our Compliance team.

As mentioned under principle 1, on an annual basis, we also contact funds managed by third parties requesting details of how they monitor companies in relation to ESG and governance issues and how it is evidenced in their voting and engagement activities and investment decision making.

Principle 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

We take a long-term approach to investing, and our universe of direct company investments is concentrated. This focus, and the level of in-depth research and monitoring we conduct means we do not expect to escalate our stewardship activities on a regular basis.

In our frequent meetings and discussions with investee companies we seek open and transparent dialogue and are unafraid of discussing the difficult topics we believe are important to our investment case. These topics include:

- Operating performance
- Leadership and remuneration
- Capital allocation
- Long-term strategy
- ESG issues.

We believe this approach allows us to resolve most of our concerns. Where concerns arise, we consider the following escalation options:

- Contacting a company's Investor Relations team for explanation or clarification
- Holding additional meetings with management
- Escalating to board members
- Utilising our voting rights
- Engaging in collective action.

If these escalation options do not resolve our concerns we may sell a company's shares if we determine it is in our clients' best interests to do so. We believe that the most constructive way of conducting our engagement and escalation activities is on a confidential basis and it is not our policy to make public statements, submit resolutions and speak at or requisition General Meetings.

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

We aim to maintain strong direct relationships with the companies in which we invest; yet we recognise that a body representing a wide range of investor views can be a particularly effective way of bringing about change and greater focus on long-term management. Therefore, we will consider initiating or joining collective actions

if constructive engagement with an investee company fails and we believe it is in our clients' best interests to do so.

To facilitate this WM UK has become a member of the Investor Forum. One of the Forum's objectives is specifically to create an effective model for collective engagement with UK companies. Further information on the Investor Forum can be found at www.investorforum.org.uk.

The decision to collaborate on company specific matters will be judged on a case by case basis by the Portfolio Managers. Our named contact for the purposes of collective engagement is:

Dan Drain, CFA (Portfolio Management Team)
Tel: +44 20 7280 5762
Email: daniel.drain@rothschildandco.com

When participating in collaborative engagement, we will be mindful of potential conflicts and acting in concert rules. Where we see potential risk, we will involve our Compliance team. Details of any collective actions we participate in will be included in our Annual ESG Report.

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

We aim to exercise our proxy voting rights for our direct holdings where we consider it practicable and advantageous. Our concentrated universe of investee companies enables us to conduct proxy voting research internally, rather than through outsourcing.

We take a pragmatic approach to voting. We actively steer clear of investing in companies where significant concerns around governance are raised through the initial research process. As such, we do not expect to vote against board proposals on a regular basis. However, if there are negative developments and having exhausted other avenues we continue to disagree with the stance taken by the Board, we will vote accordingly. We might also withhold support from management proposals when we feel that there is insufficient information to make an informed decision.

There is no formal process in place to inform companies in advance of withholding support from management proposals; however, it is unlikely that we would not have previously expressed our concerns to the company.

The Portfolio Managers have ultimate responsibility for voting decisions and will collaborate with the Research Analysts as required.

We keep a register of our voting activity. Our Annual ESG Report, with disclosure of our voting activity, is published in the first quarter of each calendar year. This is available to our clients and their advisers, as we regard this information as confidential. However, it may be provided to others at the discretion of senior management.

As mentioned previously, we also contact funds managed by third parties on an annual basis requesting details of ESG related activity including actively voting shares with ESG considerations as a key driver.

As a matter of course, we typically do not lend client stock. Therefore, WM UK's custodian has no stock lending arrangements in place either within the Rothschild & Co Group or with other financial institutions.

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

In the first quarter of each calendar year we produce our Annual ESG Report detailing our ESG and stewardship activities during the previous year with qualitative and quantitative information, including:

- Full disclosure of our voting activity
- ESG/stewardship issues or concerns encountered during our research process
- Where we have discussed ESG and/or stewardship in meetings with the management teams of our investee companies
- Improvements in our internal ESG Policy and processes.

Both our ESG Policy and Annual ESG Report are made available to our clients and their advisers. In addition, they may be provided to others at the discretion of senior management.

Our stewardship processes are not subject to external assurance reporting. However, our activities are monitored by an internal Compliance team, which we think is appropriate for our organisation. Going forward, we will continue to review the need to obtain independent external assurance.

Contact regarding stewardship matters:

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