



# THE STEWARDSHIP CODE

## Our response to the Stewardship Code

As a responsible investor Quilter Cheviot 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<sup>6</sup> 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 Cheviot 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 Cheviot adheres to the seven principles of the UK Stewardship Code.**

## Stewardship policy

### Stewardship Code Principle 1

#### 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 enables shareholders to express their view and engage with companies to support the creation of wealth; benefitting shareholders and the wider economy. As a responsible investor we will use voting rights (where appropriate) in order to further the economic interests of our clients and we have established a set of voting principles to guide our voting decisions. Our Responsible Investment document details our ethos as well as our voting principles and may be found on our website at [www.quiltercheviot.com](http://www.quiltercheviot.com).

## Investment styles

As at 30 September 2018, Quilter Cheviot managed over £24.4 billion on behalf of over 40,000 private clients, charities, trusts and small pension funds. On behalf of our clients, we invest in direct bonds and equities, as well as collective vehicles such as open and closed ended funds. Clients choose between investment management either on a discretionary or non-discretionary basis. We apply our stewardship approach to discretionary holdings, and this is focussed on our core UK equity and investment trust holdings.

We use the services of ISS (a proxy voting service provider) and use its recommendations as a basis for our engagement and voting. We apply our own views to the policy and therefore will not always follow the recommendations if we feel it is appropriate 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.

<sup>6</sup> The Financial Conduct Authority requires any firm authorised to manage funds, which is not a venture capital firm, and which manages investments for professional clients that are not natural persons, to disclose “the nature of its commitment” to the Code or “where it does not commit to the Code, its alternative investment strategy” (under Conduct of Business Rule 2.2.31). The Financial Reporting Council (FRC) states in the Preface to the Code that it is addressed in the first instance to firms who manage assets on behalf of institutional shareholders such as pension funds, insurance companies, investment trusts and other collective investment vehicles.



## Core investment universe

Our client base is a mix of private client portfolios, small pension funds, trusts and charities. Given the nature of our client base we have a long tail of small holdings which represent legacy and cherished positions. It would be impractical to vote all our equity and investment trust positions and therefore we have chosen to focus on our largest and most widely held positions where we can have most influence. Given the nature of our predominantly UK client base, these are UK listed equities and investment trusts. Where clients wish to vote their stock we will do so on a reasonable endeavours basis.

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. We take the view that where our percentage share capital of a company is small, the materiality of that holding to the company and therefore the persuasive effect of our holding will be limited. However at the same time, we are mindful that whilst we may represent a very small proportion of a large FTSE 100 company's shareholder base, in terms of our in-house holding this may well represent one of our clients' largest holdings in GBP sterling; therefore it remains incumbent on us to exercise our stewardship as effectively as we are able in these circumstances.

## 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**

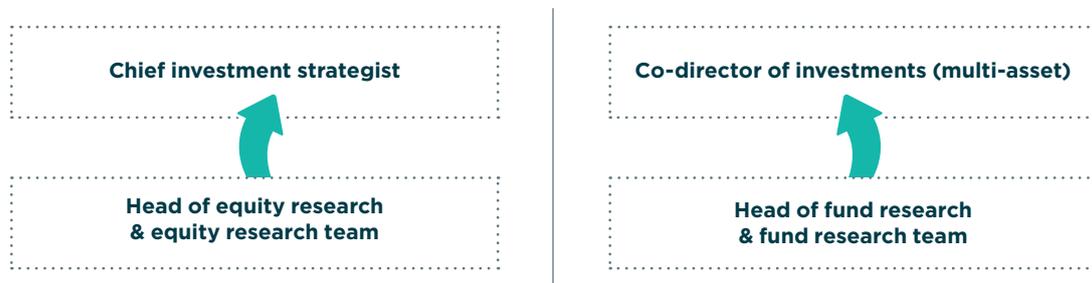
Quilter Cheviot's conflicts of interest policy may be found at [www.quiltercheviot.com](http://www.quiltercheviot.com).

It is possible that actual or perceived conflicts of interest may arise in relation to the execution of our stewardship activity. Should a conflict of interest arise 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.



**Examples of possible conflicts include:**

- There may be a situation where we are a shareholder in a company and also in a commercial relationship with that same company as a result of investing in one of their funds. As we have a separation (and distinct, different reporting lines, as illustrated below) between our equity and our fund research teams, which are also both independent functions; we believe that we are able to manage this conflict effectively given this separation



- Quilter Cheviot is part of Quilter plc. There may be occasions where an interest to be voted is held in Quilter plc. In these cases, unless specifically directed by a client, we will follow the guidance given by our external proxy voting service provider with respect to voting

**Example:**

Quilter Cheviot is a significant shareholder in a FTSE 350 company; at the time of the AGM, one of the NEDs on the company's board was employed by Quilter Cheviot as a consultant.

At the 2016 AGM there was a recommendation by our third party proxy voting service provider (ISS) to vote against management on two resolutions. Given the potential conflict of interest we followed ISS' recommendations and engaged with the company to explain the issues and what changes we would like to see.

- Conflicts could occur between clients and where this is the case we will continue to act in the best interests of each client. Thus, for example, the equity share interests of different clients may be voted differently at the same meeting where it is in the interests of each to do so
- Where an employee of Quilter Cheviot, or any member of senior management or non-executive director within the wider business 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****Investors should monitor their investee companies**

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



## Monitoring

Our monitoring includes, but is not limited to:

-  An ongoing assessment of a company's financial and operational performance
-  The quality of a company's reporting and governance processes, including environmental and social issues (particularly those that are or may be material to the value of the company)
-  The quality and credibility of strategy
-  The markets and economies in which companies operate
-  The ethical behaviour of the company and membership of its leadership team. (This includes an expectation that companies will move swiftly to achieve and exceed the aspirations set out by the UK 30% Club.)
-  The effectiveness of a company's leadership
-  The financial sustainability

We also consider compliance with the UK Corporate Governance Code and where companies do not comply with the Code, we will consider asking for an explanation for the non-compliance based merits and circumstances of each case. 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, particularly financial statements and reports & accounts are important sources of information to assist in monitoring investments, but we also use other sources including third party environmental, social and governance research, financial research and information we obtain during the course of engagement with a company. The desired outcome of monitoring activity is to reduce risk and/or obtain greater long-term success for the company and therefore our clients. Thus, achieving change and avoiding risks are factors we take into account in reviewing holdings and the success of our activity.

### 'Over the wall'

In the course of our monitoring and engagement with company management, specific members of staff may become insiders 'over the wall' (OTW). If a member of staff is OTW 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

### Investors establish clear guidelines on when and how they will escalate their stewardship activities

Stewardship is overseen by Quilter Cheviot's Director of Responsible Investment, who works closely with analysts and investment managers on issues of stewardship. Regular engagement with companies arises from one-to-one, and group meetings with company executives often following company results announcements. These meetings permit analysts and investment managers to assess the valuation of companies but are also used to question companies on strategy, governance, performance and financial management.

Depending on the topics of discussion, meetings are also held with company chairs, and chairs of remuneration committees; in specific instances we will request a meeting with the Senior Independent Director (SID) if we believe this will be helpful.



## Engagement

Where possible it is our preference to support the management of companies in which we have holdings. We will therefore evaluate the actions and strategies of companies constructively, particularly 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



Selling the holding where we evaluate it is in the interests of our clients to do so



Discussing or working with other shareholders on matters of mutual interest



In extreme circumstances, we could requisition a general meeting



Voting contrary to the management proposals at general meetings

### Examples of recent discussions with engagement:

- Discussions with companies ahead of the publication of a new remuneration policy - in some cases urging for changes to the provisions
- New share issuance which may have been detrimental to existing shareholders
- Joining with other members of the 30% Club to meet a company to discuss board composition
- Meeting with remuneration consultants to discuss trends and specific issues that concern us
- Following engagement with a company agreeing to support management in the expectation of certain actions being taken in the future

If we do not sell a holding, but remain concerned regarding some aspect of governance, strategy or operations, and we are unable to reach an understanding with a company, we may vote against particular, related resolutions at a shareholder meeting and may continue to do so in future years if an issue remains unresolved. 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 in our own right, of several formal or informal groups which may facilitate collaboration with other investors, including:

- The UK Investment Association
- Investor Group of the 30% Club
- UN Principles for Responsible Investment
- UKSIF (The UK Sustainable Investment and Finance Association)

Contact regarding collaborative engagement from other investors should be made to the Director of Responsible Investment at [gemma.woodward@quiltercheviot.com](mailto:gemma.woodward@quiltercheviot.com)

**Transparency and disclosure****Stewardship Code Principle 6****Institutional investors should have a clear policy on voting and disclosure of voting activity**

Our voting principles take into account the following:

- UK Corporate Governance Code
- Association of Investment Companies' (AIC) Code
- Pension & Lifetime Savings Association (PLSA)
- Corporate Governance Policy and Voting Guidelines
- PLSA Corporate Governance Policy and Voting Guidelines for smaller companies

We have separate teams of analysts who research equities and funds. A significant proportion of our equity holdings are UK listed companies and therefore our voting is concentrated on our core monitored list of UK equities and investment trusts.

However, we may vote outside this universe where we have a material interest on behalf of our clients in a company, or there is a specific issue we wish to vote on. We will consider voting outside of the centrally monitored universe if a material issue arises, however we will not vote if doing so prevents us from trading (i.e. in jurisdictions where stock-blocking takes place) or the costs are prohibitive. We may consider expanding our voting activity beyond this universe in future. When a client instructs us to vote in a specific way we will do our best to accommodate this, but we will not include this within our activity reporting as this is not reflective of our voting principles. Where we vote against or abstain on a resolution we will advise the company formally that we have done so. We do not stock lend. We publish our voting principles, and our voting activity reports online at [www.quiltercheviot.com](http://www.quiltercheviot.com).

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.

An example of this would be a company in which we are a significant shareholder, where ahead of its first AGM the chair of the remuneration committee met with us to outline the potentially contentious policy and report. We agreed to support management with the expectation that improvements in disclosure will be made over time and that our views had been taken into consideration for the future reporting.

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



**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 our clients, and are committed to being open and transparent with respect to our stewardship activity, therefore 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 [www.quiltercheviot.com](http://www.quiltercheviot.com).

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 occasionally frank communication and challenge.

**Assurance**

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 plc's internal audit function to carry out assurance of stewardship processes, but will review the need for external assurance in future.

An internal audit of our stewardship activity is carried out annually. It is a targeted audit reviewing compliance against our own policies and adherence to the Stewardship Code. A separate review by Quilter plc's internal audit function was conducted during 2016 to review conflicts of interest across the company (now Quilter plc).

This statement is reviewed annually and updated as necessary.

In 2018 an external audit was undertaken by Deloitte.

**February 2019**



# RESPONSIBLE INVESTMENT

**We use the services of ISS (a proxy voting service provider) and use its recommendations as a basis for our engagement and voting. We apply our own views to the policy and therefore will not always follow the recommendations if we feel it is appropriate to take a different course of action. 2018 was our first full year of voting and engaging with the core companies we invest in. Over the year we voted at 174 company meetings. At seven company meetings we lodged votes against a resolution, at two meetings we voted against two different resolutions.**

**Over 2018  
we voted at:**



Equity issuance where the rationale for the disapplication of pre-emption rights and the scale of the issuance was not sufficiently compelling



- Where the company had made political donations
- A shareholder resolution focussed on the company publishing targets around its greenhouse gas emissions which would supersede the company's own work in this area and which would be, in our view, overly prescriptive



Re-election of non-executive directors (NEDs) where

- We deem them to be 'over-boarded' i.e. we have concerns about their workload
- We have concerns about the overall independence of the board



Remuneration reports where we saw

- Significant increases in pay without reasonable consultation of shareholders
- Excessive pay-outs in comparison to shareholder returns, combined with a lack of disclosure
- CEO has become the executive Chairman but only received a 20% fall in pay
- Under-performance on a number of metrics and a lack of clarity around personal targets

**Apart from voting on behalf of our discretionary clients, we engage with companies and other entities on a number of different issues. Over the year we have:**

- Written a letter to the key investment trust brokers that we deal with outlining our expectations for boards
- Met with two broking firms to discuss our concerns, and in one instance to discuss board succession
- Been part of the Association of Investment Companies working group on the revised governance code
- Spoken at a broker non-executive director roundtable about how we engage with boards
- Met with a proxy voting consultant to outline our approach
- Participated in an external board evaluation for an investment trust



Investors should remember that the value of investments, and the income from them,  
can go down as well as up. Investors may not recover what they invest.  
Past performance is no guarantee of future results.

Quilter Cheviot Limited is a private limited company registered in England with number 01923571, registered office at One Kingsway, London WC2B 6AN. Quilter Cheviot Limited has established a branch in Dublin, Ireland with number 904906, is a member of the London Stock Exchange, is authorised and regulated by the UK Financial Conduct Authority, is regulated by the Central Bank of Ireland for conduct of business rules, under the Financial Services (Jersey) Law 1998 by the Jersey Financial Services Commission for the conduct of investment business in Jersey and by the Guernsey Financial Services Commission under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 to carry on investment business in the Bailiwick of Guernsey. Accordingly, in some respects the regulatory system that applies will be different from that of the United Kingdom.



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**QUILTER CHEVIOT**  
INVESTMENT MANAGEMENT

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