Stewardship policy

Rothschild & Co Wealth Management UK Limited

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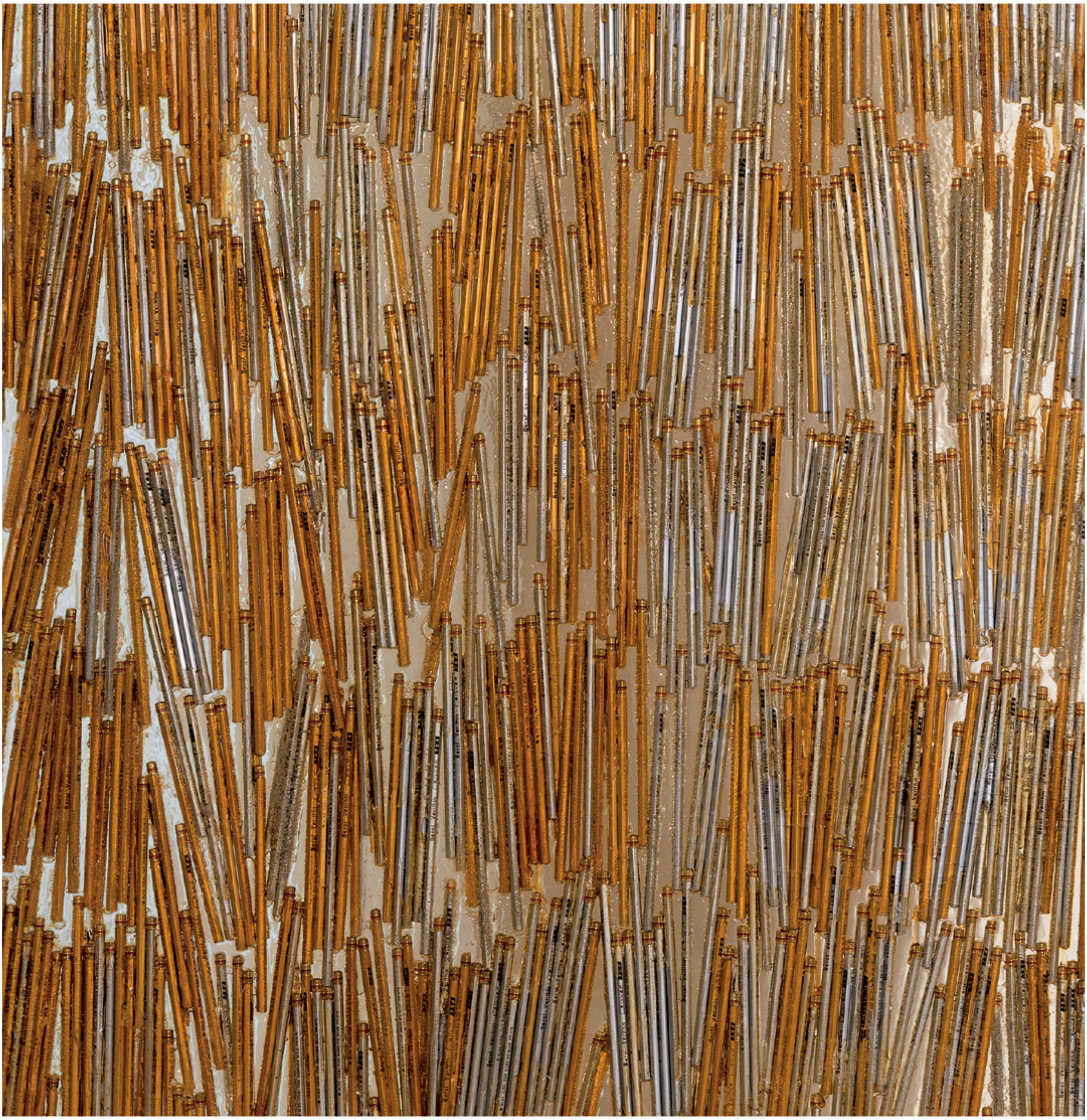

Rothschild & Co
Wealth Management

Introduction

Rothschild & Co Wealth Management UK Limited (“R&Co WMUK”) manages portfolios on behalf of private clients and their investment vehicles, foundations and charities.

This document includes our policy regarding engagement as required by the Shareholder Rights Directive II.

Sculpture with pencils
(pencils and resin on plexiglass, 1968)
by Pierre Fernandez Arman

Stewardship policy

Our investment approach

Our objective is to preserve and grow the real value of our clients' wealth over multiple generations. We do this by building portfolios that aim to grow prudently over the long term, by outpacing inflation and avoiding large losses.

Our investment philosophy is underpinned by the following principles:

Bottom-up proprietary research. We focus our time and energy on identifying companies and funds that we believe will deliver our investment objective. We believe in conducting our own investment research. Our intensive, fundamental research process provides a solid foundation for investment decisions and allows us to act with conviction.

Long term. We believe we can best deliver our return objectives by owning investments over the long term. In the short term, share prices are unpredictable, but over the long term they reflect underlying business performance.

Investing sustainably is the only way to deliver attractive returns over multiple generations. This involves taking a long-term view and investing in companies with sustainable business models and responsible business practices, as well as selecting actively managed funds that share this philosophy.

Best ideas. Good investment opportunities are rare – only a small number of businesses and management teams can generate sustainable long-term returns. While diversification is important to limit the impact of investment missteps and to manage volatility at a portfolio level, we believe in investing with conviction and backing our best ideas.

Return and diversifying assets. We balance our exposure to return assets with diversifying assets in order to limit the impact of major market corrections.

Responsible Investment

We are signatories of the United Nations Principles for Responsible Investment (PRI). The PRI defines responsible investment as 'a strategy and practice to incorporate environmental, social and governance (ESG) active ownership factors in investment decisions and active ownership.'

We have a Responsible Investment Policy in place which is shared with all our clients and which is publicly available on our website. We report to our clients on at least a quarterly basis on our investment activities and outcomes. We also publish a Responsible Investment Report on an annual basis to inform clients about our activities that relate to responsible investing such as our engagements with companies and funds or our proxy voting record. We consider this reporting and providing transparency to our clients important.

Responsible investing is fully integrated into our investment processes across equities, fixed income and fund selection. As such, we do not have a separate team monitoring ESG factors. This responsibility sits instead with each member of our investment team.

We complement our own research with the services of a third-party ESG research specialist – Sustainalytics. Their research complements our own proprietary research and provides additional inputs to our thinking.

In seeking to be responsible custodians of our clients' capital, we recognise our wider stewardship responsibilities and the role these play in protecting and enhancing the long-term value of our clients' investments.

Oversight is provided by the team of senior portfolio managers who set out the strategy and direct the investment team's activities. They ensure that sustainability factors are included in the research, from the idea generation stage all the way through to the monitoring phase of existing investments. ESG integration forms part of the investment team's KPIs (key performance indicators).

Focus on materiality

For us, investing responsibly is not a box-ticking exercise or simply a matter of adhering to a list of rigid criteria. It involves considering all the issues that affect a company's financial performance over the long term, including relevant ESG factors. A one-size fits all approach that uses ESG screens and checklists is, in our view, too simplistic because not all ESG factors are relevant to all companies.

Environmental impact and fuel efficiency, for example, matter more to an airline's ability to grow profits than they do for a financial firm. Meanwhile, social media companies need more robust privacy policies; and cybersecurity is vitally important for financial services firms.

Our 'red lines'

We believe our bottom-up research-intensive approach gives us a deep understanding of the companies in which we invest and enables us to reach a nuanced conclusion about their long-term sustainability.

We prefer to assess investment opportunities on a case-by-case basis rather than applying blanket exclusions. However, there are certain activities, products and services whose impacts on the environment or society present risks we do not wish to take in client portfolios. Therefore, we will not invest in companies where the primary business activity relates to:

- Armaments
- Gambling
- Mining thermal coal and coal power plants
- Pornography
- Tobacco

Importance of corporate governance

Ensuring high standards of corporate governance helps align the interests of company management teams with the interests of long-term shareholders. We believe that good corporate governance improves the quality of a business, which in turn leads to higher and more sustainable long-term returns. As a minimum, we expect the companies we invest in to respect the United Nations Global Compact principles on human rights, the environment, corruption and labour practices.

When assessing the corporate governance of potential investments, we consider a number of issues. In particular, we want to make sure that the companies in which we invest consider our interests as minority shareholders fairly. Below we outline what we believe constitutes good governance according to six key criteria. We recognise, however, that there will be instances where companies deviate from these 'ideal' standards. In these instances, we will need to assess whether our interests as long-term shareholders are otherwise sufficiently aligned with company management and whether the deviation will materially impact the sustainability of the business.

Board composition. We consider board composition from three angles: independence of directors, separation of CEO and chairman roles, and board diversity. Firstly, we expect boards to have a majority of fully independent directors. Second, the roles of chairman and CEO should be split. Third, the composition should be diverse in terms of background, gender and ethnicity. We recognise companies may meet some but not all criteria. For example, an entrepreneur founder or owner may retain a material interest in a business and a significant presence on the board. Therefore, we consider each company individually and assess whether our interests are sufficiently aligned with the decision makers.

Company culture. We believe this emanates from the top of a business. We evaluate incentive structures, management behaviour and commentary, as well as external sources, which provide useful insights into a company's working culture.

Shareholder rights. We look for a shareholder structure where one share equals one vote. However, some companies have dual share classes in which a smaller group of owners retains control. We assess each situation individually. Often the actions of company management or the board provide a useful insight. If our clients' interests are fully aligned with decision makers, we may still decide to invest.

Executive compensation. We expect executive compensation to be fair and proportionate. We analyse executive compensation and assess that incentives are aligned with long-term shareholders. We look at the composition (fixed versus variable), magnitude and metrics used to achieve payouts.

Capital structure. Capital allocation decisions by management form an integral part of our analysis of a company and our assessment of the quality of management. Through our engagement with companies we try to hold management teams accountable for their decisions regarding mergers and acquisitions (M&A), dividend policy, buyback strategies, capital expenditure and overall balance sheet management.

Company reporting. We expect companies to report with clarity and transparency. In addition, we consider reporting on corporate social responsibility and environmental performance is a key source of insight into responsible business practices. The more reliable data a company can provide, the better investors can take informed decisions or engage with companies to improve things. Therefore, we are supportive of initiatives to develop this area and will reflect this through our engagement with companies and voting.

Engagement

Engaging with companies

In our view, engagement is one of the most powerful tools we have as investors to influence positive change. As active owners of our investments we can be agents for change – influencing the ways companies and fund managers manage their ESG risks and opportunities. If we can encourage companies to operate more sustainably, not only will this lead to better investment outcomes, but ultimately will create more positive outcomes for society and the environment.

We view engagement as an ongoing conversation, as we listen to the challenges companies face and provide honest feedback as shareholders. This collaborative approach allows us to build rapport and develop mutual respect. It's also through this direct dialogue that we believe we can exert influence and make a difference. Given our intensive, research-driven approach, we don't expect to encounter new material ESG issues with the assets in which we invest – significant ESG concerns would normally preclude investment in the first place. However, we recognise that no company is perfect. Just as we are on a journey with regards to sustainability, many companies are on journeys of their own.

When prioritising engagement we focus on materiality. When concerns or material issues do arise, outside of our own red lines, we engage directly with management as our first and preferred course of action. We believe it's more responsible to address sustainability issues as an engaged shareholder rather than divesting and leaving the problems for others to solve. As long-term owners of the companies and funds in our portfolios, we can engage directly and promptly with management when concerns arise because we have already established strong working relationships. We expect a clear strategy and timetable for addressing the issue(s) in question, which we then monitor closely.

We consider our engagement a success when we see positive change, but we acknowledge that these issues are often very complex, and patience is nearly always required. Ultimately, however, if we felt management were not responding appropriately or our engagement led us to conclude that the longer-term sustainability of the investment had been irreparably impaired, we would sell our holding.

We do not have an engagement process in place for fixed income securities. The characteristics of our portfolios' fixed income exposure differ significantly from our equity holdings. Key differences include the level of diversification needed and therefore the number of issuers we deal with, the time horizon with a fixed maturity (often much more short term) and access to management. These factors mean it is much more difficult to engage effectively with issuers.

Collaboration

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 R&Co WM UK are members of the Investor Forum in the UK. One of the Forum's objectives is to facilitate collective engagement with UK companies. Further information on the Investor Forum can be found at www.investorforum.org.uk.

Escalation

Given our approach to investment selection and monitoring, 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 difficult topics. 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.

With all of the above actions we ensure that meeting minutes are documented and shared amongst the investment team. Specific objectives and timelines will be included where relevant. If these escalation options do not resolve our concerns, we may ultimately sell a company's shares if we determine it is in our clients' best interests to do so.

Engagement with external managers

In addition to selecting securities ourselves, we also own third party funds in our client portfolios. When selecting external managers we look for a specific type of manager who we believe we can trust, which will allow us to partner with them over the long term.

The managers we invest in must satisfy the following three criteria:

- **Alignment**: beliefs and values are substantially the same as ours, and the management fees are fair.
- **Integrity**: actions speak louder than words, which is how we build trust in a manager.
- **Transparency and access**: full insight into the portfolio and investment decisions.

For each manager whose funds we own, we create a materiality framework which incorporates their policies, processes and portfolios. These frame our discussions with the managers so that we can ensure they are meeting our sustainability requirements and help us to monitor progress.

If a manager does not meet our minimum expectations, we will set a timeline to implement processes and make improvements. If a manager does not respond in a satisfactory way by the end of this timeline, we will ultimately decide to redeem the holding.

Voting

Our voting principles

- We vote on all resolutions where possible.
- We base voting decisions on our own analysis.
- We see voting as one form of engagement amongst others.

Our voting objectives and alignment with our investment philosophy

Our objective is to preserve and grow the real value of our clients' wealth over the long term. With this comes a responsibility of stewardship and active ownership. An important aspect of this, and one of the tools we have to influence companies, is through our voting decisions. With our principles providing a roadmap, we can have a say on corporate governance issues such as board structure, diversity, executive pay and company disclosure on a range of topics such as climate change.

Since we expect transparency from our companies and their management, we strive to reciprocate. Generally, we aim to discuss and resolve any concerns with management through our engagement and if we decide to abstain or vote against the company, we aim to communicate this to management beforehand.

We do not use external advisors in order to decide how to vote. Most resolutions are non-controversial and do not require lengthy discussions. In cases where a shareholder resolution does require more consideration, the relevant members of the investment team will be involved in the decision process and the reasons for a given conclusion are documented. If we decide to vote against company management, we will inform them of our decision. In addition, we keep a log of all our decisions.

All our actions in this area are driven by a drive to vote in a manner that ensures the interests of our clients are best served in the long run.

Stock lending

As a matter of course, we do not lend client stock. R&Co WM UK's custodian has no stock lending arrangements in place either within the Rothschild & Co Group or with other financial institutions. As a result, this does not restrict our voting ability.

Proxy voting by external managers

We expect our third-party managers to exercise their voting rights wherever possible. Ideally, the actions of our third-party managers are supported by a proxy voting policy. We give full discretion to third party managers on how to vote, but we expect them to report back to us on their proxy voting record on an annual basis. Where managers have voted against company management, we expect them to share a detailed rationale. Additionally, if a proxy vote was contentious but the manager voted in favour, we also expect a detailed rationale.

Transparency for our clients

Our Responsible Investment Report provides our clients with our voting record on an annual basis. We disclose the number of resolutions voted on, their nature and whether we voted with or against the recommendations of a Board. We provide the rationale for certain voting decisions, for instance in cases where we:

- voted against the recommendations of a Board
- voted against a resolution, but in line with the recommendations of a Board
- placed a vote that was not in line with our guiding governance principles in the event of mitigating circumstances.

Conflicts of interest

Being good stewards of our clients' capital also requires us to have arrangements for identifying and managing actual or potential conflicts of interest.

Our conflicts of interest policy states that Rothschild & Co should act in a manner which is consistent with the best interests of its clients and investors in the funds it manages.

Rothschild & Co should treat its clients fairly, returning the trust and confidence they place in us.

The advice we give should be objective and unaffected by conflicts of interest, either those of the firm or of individual employees.

At all times, Rothschild & Co will endeavour to act in the client's best interests or apprise them when it cannot do so. Rothschild & Co approaches the identification and management of potential conflicts of interest based on the information presented by others or that which is reasonably available in the public domain.

At times there may be competing interests and, in these cases, the situation must be evaluated, escalated, and resolved by local Compliance or Group Legal, Compliance and Risk and business management.

Rothschild & Co has procedures for identifying and resolving conflicts on a case-by-case basis. Additionally, there are procedures to identify, analyse and escalate conflicts as they arise in the normal course of business. These controls are designed to maintain the confidentiality of sensitive information and address actual or potential conflicts of interest.

Our full policy is published online here https://www.rothschildandco.com/en/legal-information/