Smith & Williamson

Stewardship Code 2020 Report

31 March 2021

(for reporting period 01/01/2020 - 31/12/20)

Contents

CEO message

2020 will be remembered for the many different things that stemmed from the COVID-19 pandemic, but one of the most impactful will be that ESG investing and stewardship is now indisputably mainstream.

A second major change was to see social issues – things such as employee wellbeing, diversity and inclusion, communities and supply chains highlighted as a significant priority, along-side the propriety of addressing climate change.

The ESG 'industry' has grown quickly and chaotically. It is still missing standardised definitions and clear guidelines, which has allowed for a variety of interpretations. New rules will provide greater clarity, albeit slowly. Ongoing education and training for all stakeholders is a major focus for us with regular presentations, seminars, articles and debates generated every month and all available free from our website.

We are at the forefront of the UK wealth industry with regard to stewardship and responsible investment and intend to remain as one of the leaders. We are committed to incorporating the requirements of the Taskforce for Climate Related Financial Disclosure (TCFD) from 1 January 2021 and to be net-zero at a corporate entity level from 2025.

I hope this 2020 UK Stewardship Code report gives you a strong sense of the deep thought, the breadth of activity and the commitment of Tilney Smith & Williamson to the long-term interests of our clients and our other stakeholders.

Smith & Williamson merged with the Tilney Group in September 2020. While this report is written for Smith & Williamson only, great strides have been made to integrate our stewardship policies and where this has already happened, we refer to Tilney Smith and Williamson (TS&W).

Chris Woodhouse
CEO and lead on Responsible Investment and Stewardship at Board level

Introduction

As signatories to the UN supported PRI (Principles for Responsible Investment) and supporters of the UK Stewardship code Tilney Smith & Williamson ("TS&W" or "the Group") have incorporated Environmental, Social and Governance (ESG) factors along-side traditional financial metrics when picking stocks and funds.

Incorporating ESG criteria would intuitively seem to improve risk and build more resilient portfolios. After all, if companies are managing their environmental footprint, labour force, or supply chains efficiently, they should be less vulnerable to regulatory problems, fines, business disruption or reputational damage. To our mind, there are clear risk-adjusted return advantages to an ESG approach.

Good governance underpins a company's behaviour, its reputation, and its relationship with its stakeholders. We are long-term shareholders and strongly advocate using our clients' shareholding influence to put pressure on company managements to change and reorientate. We vote the direct shareholdings on our discretionary clients' behalf and engage with the management teams that we invest in to make sure their interests are as strongly aligned with the interests of our clients as possible. Working both directly and collaboratively gives us significant influence and financial firepower to bring about real change.

Transparency in everything we do has always been important to the group, with much more detailed annual reports than required for a private company for over a decade, we provide full disclosure of voting and engagement activity on our website and in our annual stewardship reports.

About Tilney Smith & Williamson

As of September 2020, Smith & Williamson is now part of the Tilney Smith & Williamson group.

We have been looking after the financial affairs of individuals, families and their businesses interests and charities for more than a century, including the sixth generation of our original clients. The breadth of our service offering is unrivalled. We combine a top ten UK accountancy and professional services business with a leading wealth management and financial planning firm and within the combined group we manage over £55bn assets under management (AUM) and advice and support more than 145,000 clients making us the fourth largest Wealth Manager in the UK by AUM. We have operations in both the UK and in Europe.

Our corporate purpose is "to place the power of good advice into more hands" and we serve a broad spectrum of clients. Our client investment solutions range from pooled funds distributed through our online services that are able to support clients at the earlier stages of their journey as investors through to complex and bespoke solutions. The range and breadth of our offering combined with the complexities of directly managed individual clients, who might be invested in multiple investment wrappers, with differing tax treatments, time horizons and other constraints, present material challenges when compared to the much simpler constraints that large institutional asset managers encounter.

We don't impose our ethical ESG views on our clients, but all clients benefit from our integrated approach to responsible investment and stewardship. Most have the option to ask for additional negative screening, positive tilts and additional reporting of ESG factors such as greenhouse gas (GHG) emissions and UN Sustainable Development Goal (SDG) alignment.

This report covers the activities of Smith & Williamson Investment Management LLP as at 31 December 2020, which was responsible for managing assets and advice of circa £24bn and approximately 36,000 clients. However, at 31 December 2020 the merger was well underway so where policies had already been combined this is reflected in this document. The expectation is that we will submit a combined group Stewardship Code report for the year ended 31 December 2021.

Key Achievements for 2020

UN supported Principles for Responsible Investment (PRI)

These six principles are the foundation of our Responsible Investment response. Smith & Williamson were happy to note that we were awarded an A rating from the PRI in 2020. Our full PRI reports can be found on our website reflecting our commitment to transparency.

Proxy voting & engagement

As part of our commitment to both the UK Stewardship Code and the UN PRI we voted on over 700 company meetings and actively engaged with over 100 companies in 2020. Due to COVID-19, we saw an extended proxy voting season as AGMs were moved to virtual events. We managed to streamline our processes and report as normal. Our full voting record can be found later in this report (under principle 12) as well as in our annual stewardship report on our website. We have also worked hard to ensure we remain SRD II compliant for both discretionary and non-discretionary clients. We are awaiting Tilney assets to arrive in Smith & Williamson custody so we can integrate them in our voting process.

Collaborative engagement

Working with other investors on key engagements makes a huge difference to our effectiveness. Through our membership of the UK Investor Forum, we have taken part in most of the major UK collective engagements in 2020, which we look forward to reporting on when they have been concluded. We became members of Climate Action 100+ at the start of 2020, and are part of a working group engaging with one of the world's 100 largest greenhouse gas (GHG) emitters. This UN-supported engagement group has been hugely important in encouraging disclosure of GHG emissions and commitments to reach net-zero.

Empowering investment teams

Every team now has their own login to MSCI ESG Manager, our third-party screening provider and ESG portfolio reporting tool. Additionally, every team has access to the Glass Lewis database of voting recommendations and can provide clients with personalised voting records on demand.

ESG integration into the investment process

We don't separate out the roles of investment manager and analyst and we don't separate out the role of financial analyst and ESG analyst, so the investment process is fully integrated. The pace of change is rapid, and updating process, documentation, assurance etc. is continuous. Therefore, maintaining and updating skill sets remains an ongoing challenge. Our teams have shown enormous enthusiasm and dedication throughout the year. Ongoing training programmes are extensive. Significant numbers of colleagues have taken the new UK CFA ESG qualification.

Principle 1

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Purpose

Our corporate purpose is "to place the power of good advice into more hands". Our core values are to deliver a personal and inclusive service to all clients irrespective of their size, to build long-term partnerships which will stand the test of time and focus on performance, as we aim to be a forward-thinking and innovative business that strives for more.

We deliver imaginative, yet pragmatic advice and investment solutions tailored to each clients' individual circumstances. We achieve this by taking the time to get to know our clients and to understand their objectives, needs, constraints and aspirations, as well as the longer-term challenges they are likely to face. We act as a trusted adviser to help our clients grow, manage and preserve wealth. Our fiduciary duty to our clients is at the forefront of managing their needs as well as contributing to the wider market and society.

Investment beliefs

Our culture, values and commitment are to provide a top quality personalised service, working in partnership with professionals across the wider group to deliver strong risk adjusted performance to our clients. We are committed to fully integrating Responsible Investment (i.e. the combined activities of ESG integration and active ownership and stewardship) into our investment process. We are cognisant that our success as a business is based on the quality and commitment of our employees and partners and a strong, shared culture. Their continued development and our ability to attract and retain the best people is at the forefront of the people programmes we have in place and are enhancing. We strive to create a rewarding and fulfilling work environment, providing career development and training opportunities while promoting an appropriate work/life balance. We also have a strong sense of corporate responsibility, aiming to manage the impact of our business on people, suppliers, communities and the environment.

Strategy & culture

We seek to preserve and grow the real value of each portfolio, for the lowest risk necessary to meet each client's specific objectives over the long term. We are patient investors. Our investment philosophy rests on five underlying pillars:

1. Quality: we expect equities will be the main drivers of returns through time. We seek to invest in businesses able to grow revenue and compound returns over time, that are attractively valued with sound balance sheets and healthy cash flow generation, that are sustainable in terms of ESG (Environmental, Social and Governance) factors and have a proven record of strong management and investment in their chosen strategy. We believe that these types of companies will outperform across the economic cycle and they represent the core of our portfolios. We adapt portfolios to reflect where we are in the investment cycle.

2. Genuine diversification: however confident we are about the outlook, we maintain well diversified multi-asset portfolios. We want to preserve capital during unexpected shocks and to match each portfolio to the individuals' risk capacity and tolerance. We do this by constructing portfolios made up of different asset types, combining holdings with different economic exposures and avoiding investment in areas that are too risky.

3. Liquidity: portfolios need to be flexible to be adaptable to changing economic and market conditions. Liquid assets can prevent active management and lead to unsuitable portfolios in 'risk-off' environments. We look to hold high quality investments which trade on large liquid markets. We regularly assess the liquidity of our portfolios, especially in the fixed interest and alternative sectors where liquidity is thinnest.

4. Responsible: we integrate Environmental, Social and Governance (ESG) factors alongside traditional financial analysis because it improves our ability to identify sustainable businesses and improves the resilience of the portfolios we build for our clients. We vote all discretionary holdings held by our charity and not-for-profit clients, all holdings above our materiality threshold, and all holdings in companies listed on the London Stock Exchange's Alternative Investment Market (AIM). We directly and collaboratively engage with the companies we invest in worldwide.

5. Integrated risk controls: we incorporate strong risk controls across every aspect of our management of our client's capital. In addition to the risk controls monitoring investment and operational risk, there are also strong risk controls covering administration and transition. All our administration is carried out in-house which reduces third party risks.

ESG risks

We consider ESG or sustainability risk as an environmental, social, or governance event, or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment arising from an adverse sustainability impact.

ESG risks and factors include those related to climate change impacts, mitigation and adaptation, environmental management practices and duty of care, working and safety condition, respect for human rights, anti-bribery and corruption practices, and compliance to relevant laws and regulations.

Factors we consider are:

- Legal and regulatory: the risk of failure to identify the changing requirements from multiple and overlapping regulators. Firms could get fined for mis-selling products/ services to clients or providing improper advice to clients regarding 'green' or 'sustainable' investments until the appropriate standards are established. There is also an increased risk of litigation and client dis-satisfaction.
- Technology: accelerated adoption of climate and sustainability goals, potentially leading to more spending upfront on technological solutions to achieve our energy goals.
- Reputation: the reputational impact of climate change both actual and perceived is a key concern for firms. Negative headlines and protests have already been seen across the sector. There is a need to ensure the Group is proactive in its activity and the brand is carefully managed.
- Productivity: rising summer temperatures or severe weather events could have productivity impacts for staff.
- Raising sea level: the majority of Tilney Smith & Williamson business is not in areas that are stressed by water or extreme temperatures therefore rise in sea level would have a limited impact on our business.
- Product and service offerings: the investment strategy will need to adapt, to take in to account new regulations and meet the expectations of clients.
- Sustainability considerations and promotion of ESG culture within the group: net-zero targets, plans to align to TCFD, recycling, paper reduction and green energy initiatives are already in place. In spring 2022 we will relocate to a new head office in London, which is being fitted out to the meet high environmental standards. Further developments are also being planned and considered e.g. carbon offsetting, limiting travel.

Why is Stewardship important to us?

Clients

We take a proactive approach to listening to and understanding our clients' needs and ambitions, operating a comprehensive and unified Client Care programme across the Group, led by our Group Head of Client Services. This provides an independent and objective platform to capture insights that will enable us to deliver a consistently exceptional client experience. We believe that by listening to our clients' experiences on how we are performing, and by understanding what they want and expect from Tilney Smith & Williamson – now and in the future - we can improve many aspects of our service that will bring real and tangible benefits. This is a client-centric programme that runs holistically across the Group, unifying all business areas nationally. It helps us to grow and deepen relationships, as well as understand more about our clients' needs so that together we can develop growth strategies, ensuring ongoing satisfaction and enabling us to better serve their interests. Our client surveys report strong satisfaction levels amongst clients. Our client feedback indicates the growing interest and importance of stewardship and responsible investment to them.

"Excellent service from my investment manager who conducts my affairs with amazing patience,"

"One of the best features of the service I receive is the way any question I may have, however insignificant, is dealt with in a most courteous, helpful and speedy way."

Communities

As a Group we enable our clients to invest responsibly, and we take the same approach by investing in our local communities as a good corporate citizen. We have a wealth of talent and experience within our business and we are keen to share this with the community and enable our employees to gain further personal and professional development by getting involved in community projects and activities. For instance, Smith & Williamson and EY Foundation have been working together to deliver their first employability programme for young people who face barriers to employment. Smith & Williamson is also part of the Girls' Network and offered one-to-one mentoring scheme to several young women.

The Group's Communities and Charities work forms one of the four pillars of Tilney Smith & Williamson's Corporate Responsibility Framework and Committee (further outlined in the next section under Principle 2).

Our community investment programme is delivered through our Giving Back programme and funded by the Tilney Charitable Trust ('TCT'). The TCT was established in 1979 and since then has donated over £3 million to local and national charities. The Trust has a strong heritage in providing funding to the charitable causes which our employees support.

Our Giving Back programme is in place to:

- encourage and support volunteering participation from our employees, to contribute to employees' personal and professional development and enhance employee engagement.
- enhance our reputation as a responsible company with employees and external stakeholders at local, regional and national levels.
- encourage charitable giving and fundraising efforts for the benefit of our local communities.
- embed good citizenship into all areas of the business.
- on supporting:
  - employee volunteering and personal development
  - giving to charity

We operate under an effective governance structure to protect our reputation, brand and our relationships with regulators and legislators, as well as our Partners. Our Giving Back Committee leads and governs our approach to volunteering and charitable giving, agreeing the focus and policy for the Giving Back Programme and ensuring the programme contributes to the overall business strategy.

Performance

We are long term investors. For some clients this can mean a multi-decade, multi-generational approach – for example we manage the sixth generation of our original investors. Tilting portfolios towards positive long-term trends and away from the negative ones is a key part of our longer-term strategy. Regularly meeting and engaging with the companies and management teams we invest in has always been a core part of our disciplined investment process. Stock picking, alongside asset allocation are core aspects of our investment approach. The importance we place in ESG factor integration and stewardship in improving our stock picking and, thus, ultimately portfolio resilience for clients, is just a natural extension of what we do. Many of our investments are tax constrained so good engagement with our investments is key to meeting client objectives to preserve and grow capital in the long term. Clients have had the opportunity to exclude companies and sectors from their portfolios using negative screening techniques or to tilt portfolios towards specific goals for over a decade.

The problems that ESG investment seeks to address are urgent, the COVID-19 pandemic has accelerated the importance of social impact too. The repercussions of climate change are profound and a failure to tackle it today would rightly be condemned by future generations forced to live with the consequences. Against this backdrop, it will only become more important to policymakers as part of the inevitable policy response. Governments are designing carrot and stick incentives to encourage markets to do the heavy lifting. Enormous and rapid change is necessary, but the momentum behind ESG investing is building. Client interest and regulatory change in both the UK and Europe, where we operate has accelerated, expectations are rising fast.

Remaining at the forefront of the UK wealth industry with regard to stewardship and ESG integration is core to our long-term purpose of placing the power of good advice into more hands.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Governance & resources

The Board sets the purpose of the company, the strategic direction, the policies and monitors performance of the Group Executive Committee (GEC) against these. The GEC has ultimate responsibility for the leadership of the Group, the development and execution of its strategy and running the business on a day-to-day basis. Group CEO, Chris Woodhouse, in addition to his other duties, is the lead on stewardship and responsible investment and corporate responsibility at Board level.

In relation to the four pillars of our Corporate Responsibility Framework, they in turn are advised by the Corporate Responsibility Committee (CRC) who report directly to the GEC. This multi-disciplinary group of GEC members who directly report to the Group CEO, chaired by Susan Shaw (Head of Professional Services), draws up their recommendations and set targets under four main pillars of Responsible Investment, People, Environment, Communities and Charities.

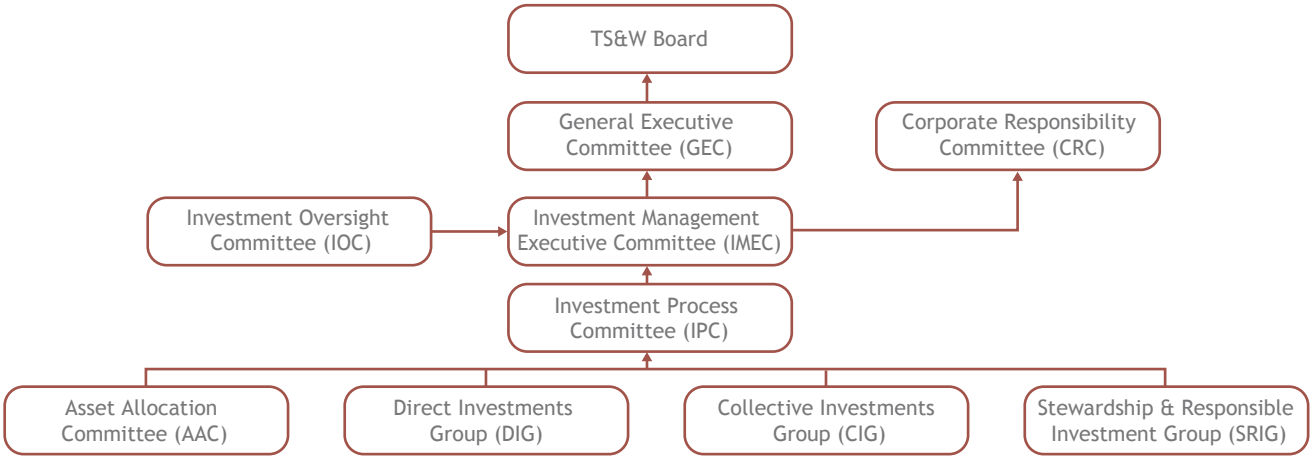
The head of the appropriate department has responsibility for each pillar, all are members of the GEC:

- Responsible Investment (John Erskine, Chief Investment Management Director): focused on our investment clients with the aim for Tilney Smith & Williamson to be the leading responsible investment wealth manager in the UK; represents all things related to the stewardship and responsible investment process inputs/outputs which is overseen day to day by the Investment Process Committee (IPC).
- People (Bene Peto, Group Chief People Officer): includes employee engagement and wellbeing, and diversity and inclusion.
- Environment (Andrew Baddeley, Group Chief Financial Officer): includes waste (paper, recycling, plastics), energy efficiency & carbon reporting (scope 1-3) and striving to achieve the relevant 17 UN Sustainable Development Goals applicable to Tilney Smith & Williamson's corporate activities.
- Charites and Communities (Nicola Mitford-Slade, Group General Counsel): includes volunteering, charitable giving and support for local communities.

In addition, Group Audit have responsibility for reporting, internal assurance and controls. The Board sub-committee Risk and Audit Committee (RAC), which is chaired by the senior Non-Executive Director, provides overall oversight of all these aspects including ensuring the function has the appropriate resources and access to information.

Organisational Structure

Tilney Smith & Williamson - Stewardship & Responsible Investment Governance



Investment Management Executive Committee (IMEC)
This is chaired by John Erskine, GEC member and Chief Investment Management Director, and has responsibility for the group's investment management strategy and proposition, the quality (regulatory) of investment advice and portfolio management, investment process and investment oversight, professional competency development and assessment.

Investment Process Committee (IPC)
Day to day oversight of the investment processes is provided by the Investment Process Committee (IPC), a group of senior investment management practitioners, who are responsible for all of the Group's investment services and the allocation of resource to support them. The team of analysts are responsible for the provision of collective and direct equity research as well as strategic and macro-economic analysis and report into the Chair of the IPC.

The Investment Process Committee (IPC) has delegated day to day responsibility for matters related to responsible investment and active ownership to the Stewardship & Responsible Investment Group (SRIG), responsibility for direct investments falls to the Direct Investment Group (DIG), collectives to the Collectives Investment Group (CIG) and fixed interest to the Fixed interest Investment Group (FIG).

Stewardship & Responsible Investment Group (SRIG)
The primary objective of SRIG is to maintain the SRI policies (including the responsible investment policy, voting /SRD II policy, engagement policy, EU Sustainable Finance Disclosure Regulation (SFDR) compliance including for Principal Adverse Impacts (PAIs) on sustainability factors and equivalent UK regulation, ensure ESG integration throughout the investment process, manage voting and co-ordinate engagement (including through collaborative platforms), educate colleagues and ensure the company remains on the front-foot of all responsible investment developments and regulatory requirements.

SRIG meets monthly and reports monthly to IPC. There are working parties that meet covering special projects. SRIG comprises a mix of experienced investment managers, the head of the Stewardship & Responsible Investment (SRI) team, the Head of Charities, the Head of Investment Compliance, the Head of Investment Risk and the Head of Regulatory Developments along with experienced investment practitioners.

The SRI team are responsible for reporting stewardship outcomes, co-ordinating engagements, proxy voting oversight, ESG and ethical monitoring and advice, and ensuring external websites and the internal 'responsible hub' are kept up to date. Their role sits within the front office where they can assist with queries, conduct due diligence on new systems, provide specialised training, run various reports and be the first point of contact for anything relating to stewardship and responsible investment.

Support is also provided from members of the wider operational and head office teams depending on needs and their specialism. This support includes corporate actions related data gathering and distribution, contract negotiation, regulatory insight/briefing, liaison with industry bodies and technology integration.

Direct Investment Group (DIG)
DIG has responsibility for implementing the firm's process, including incorporating ESG factors, relating to direct investments. There are approximately 60 analysts supporting the work of DIG.

A key objective of the direct investment process is to demonstrate that adequate due diligence of investments (whether monitored or unmonitored) held in managed portfolios has been carried out. By fulfilling this regulatory requirement, we are able to manage bespoke portfolios in a way that should lead to the best client outcomes.

The direct investments process seeks to provide investment managers with a sufficient choice of securities from which they can construct and maintain suitable portfolios. The process seeks to cater for our clients' wide range of circumstances, values and objectives. However, our core philosophy is that investment in direct equities of growing companies with sustainable (responsible) and attractive returns, and not overpaying for these companies, generates superior portfolio performance over time. The securities identified by this process form the Monitored Universe. For the avoidance of doubt, this is not a 'buy-list'.

There are currently three members of SRIG sitting on DIG. They ensure that matters of stewardship and responsible investment are filtered down into the wider group. They provide updates on voting, engagement, ESG training and any regulatory updates.

Collective Investment Group (CIG)
CIG have responsibility for implementing the firm's process relating to collective investments. There are approximately 70 analysts supporting the work of CIG.

There are four members of SRIG sitting on CIG. They are responsible for updating the group on all matters of stewardship and responsible investment, including due-diligence, monitoring, engagement, voting on Investment Trusts, ESG training and any regulatory updates.

Fixed-Interest Investment Group (FIG)
FIG have responsibility for implementing the firm's process relating to both direct and collective fixed interest investments. There are approximately 8 analysts supporting the work of FIG.

Key service providers

At the start of Q4 2020 Tilney Smith & Williamson introduced a new investment management and administrative system called Avaloq. This represents a considerable investment and will be a key building block on which the responsible investment process and client sustainability preferences are fully integrated within portfolios in the years to come. Avaloq have assisted our in-house teams to ensure that the new system has met its milestones.

We rely on a number of third-party providers to provide key data as follows below. All our teams have direct access to these services except for Morningstar and Broadridge for which only a few colleagues have access to.

MSCI ESG Manager provides initial company and fund screening, as well as detailed reporting for our clients. We supplement their work with that of our own analysts. Consistency and interpretation of data across companies, sectors, regions and data providers remain an issue, although one that we expect to be resolved in time. MSCI are developing new modules and adding new coverage which is gradually reducing gaps to coverage and meeting emerging needs. During the year we wrote to our third-party managers not covered by the MSCI system to ask them to provide timely data. Screening unquoted investments and hedge funds remains a challenge.

Glass Lewis, our proxy service agent, provide proxy voting information which we adapt to our own voting policy. In addition, they allow us to track and report our activity at both a group and portfolio level. Incorporating the needs of a wealth manager with tens of thousands of clients has been a major challenge and it has taken time to improve access and report processing speeds, but good progress has been made.

Broadridge supply the pipeline through which all our voting activity is directed and the controls to ensure we only vote what we should be. Voting for execution only clients was successfully launched at the start of Q4 2020.

Morningstar and Refinitiv provide additional services and information to allow us to cross-check information.

We buy-in a global range of high-quality sell-side research that provides valuable insight used to augment and inform the work of our in-house teams.

Provider	Service procured	Significant activity during the period (beyond day-to-day details)
Avaloq	Investment and cash management and back-office functions	At the start of Q4 2020 we started a major upgrade of our primary investment and administrative systems
MSCI ESG Manager	ESG rating, controversies, screening, ESG company and industry research, carbon data, webinars, portfolio reporting on ESG, impact, and carbon	Conversations with MSCI industry analysts, training sessions for portfolio managers
Glass Lewis	Proxy voting research and platform, portfolio and company-wide reporting	Rolled over access to the Glass Lewis platform to the portfolio managers, training sessions for portfolio managers
Broadridge	Proxy voting delivery	
Morningstar	Data, news and research on funds, investment trusts and ETFs	
Refinitiv	News, pricing data, investment analytics tool, including ESG	
Sell-side Research	A range of sell-side research used to augment and inform our own work	

We share responsible investment resources on our internal and external websites. On our publicly available website, we share a number of policies under the overarching structure of our responsible investment policy statement. We also provide our quarterly proxy voting report, our PRI responsible investment transparency report, our stewardship annual report, and articles on the topic of sustainable investment.

We have an internal investment platform from which our Responsible Investment (RI) hub is accessed. The RI Hub brings together all the responsible investment information available into one easy to navigate area. For example, we share internal documents such as our ESG training material, meeting notes of webinars on sustainable investment topics, ESG research, our ESG newsletters, user guides to our service providers, lists of proprietary ESG buy-lists for equities and funds. Our ESG policies are also stored there. The equities section of the investment platform contains our monitored universe on which our proprietary financial scores are displayed along MSCI ESG ratings, as well as individual MSCI Environmental, Social, and Governance scores.

Training

All members of the Board and senior executives and department heads receive induction and ongoing training on stewardship and responsible investment each year.

As part of our ESG integration roll out, we continue to ensure all investment managers/ sector specialists (research analysts) are fully trained on all ESG topics. In progress currently, there is a three-stage mandatory training programme for all client facing professionals, sector by sector training each year with MSCI sector specialists, and significant numbers have taken the UK CFA ESG exam. There is also wide-spread take-up of sell-side events and other training opportunities, with a notable recent example being the Climate Change and Investment Academy run by Alliance Bernstein in collaboration with Columbia University's Earth Institute.

The Learning & Development team have overall responsibility for training. However, where content is mostly related to investment, this is overseen and approved by the Investment Process Committee, with input from the Stewardship & Responsible Investment Group, the Direct Investment Group, and the Collectives Investment Group where applicable. We plan to extend our collaborative engagement activities, build our principal adverse impact (PAI) and other Level 2 SFDR reporting, integrate individual client sustainability preferences with appropriate systems and strengthen our climate-related disclosures by adopting the Task Force for Climate Related Disclosures (TCFD) framework and reporting for the year end 31 December 2021. We are in the process of selecting external training professionals to provide more advanced training for our investment managers and sector specialists and will encourage further take up of the CFA ESG exams and other relevant training related to sustainability and responsible investment.

Incentives

The main principles of our remuneration policy are:

- to align remuneration with the strategy and performance of the business
- to ensure that remuneration is set at an appropriate and competitive level taking into account market rates and best practice
- to foster and support conduct and behaviours in line with our culture and values
- to maintain a sound risk management framework
- to ensure that the ratio between fixed and variable remuneration is appropriate and does not encourage excessive risk taking
- to comply with all relevant regulatory requirements
- to align incentive plans with business strategy and shareholder interests

The policy is designed to reward partners, directors and employees for delivery of both financial and non-financial objectives which are set in line with company strategy. As part of a 'balanced scorecard' approach to variable remuneration, non-financial criteria, including, but not limited to, compliance and risk issues, client management, supervision, consideration of whether the investment process has been followed, leadership and teamwork, are considered alongside financial performance.

The remuneration policy also takes into account Regulation (EU) 2019/2088 for sustainability-related disclosures in the financial services sector. The policy is consistent with our approach to the integration and management of sustainability risks in its investment process. Relevant feedback, including non-financial criteria, is provided to the remuneration committee for consideration in the assessment of variable remuneration. This includes whether the investment process has been followed with regard to matters such as asset allocation, security selection, responsible investment and investment risk management, including sustainability risks. Awards typically vest over three-year rolling periods.

Diversity and inclusion

We are committed to having a diverse and inclusive organisation. We wish to ensure that individuals of all backgrounds, life experiences, preferences and beliefs are recognised and respected as individuals and valued for the different perspectives they bring and that all people are given equal opportunity to contribute to business success and be their true selves, regardless of background.

We have established a Group Diversity & Inclusion (D&I) Committee, which has responsibility for ensuring the development and delivery of the Group's diversity and inclusion agenda. Our diversity and inclusion strategy focuses on ensuring that our recruitment, development and promotion processes fully support our diversity aims,

removing sub-conscious bias, while continuing to ensure we select the best individual for the role. We promote a culture where all colleagues feel valued and able to contribute, through activities like diversity network support groups and celebrating diversity. As noted above, this forms part of our People pillar of our Corporate Responsibility Framework, led by our Group Chief People Officer.

The key elements of our strategy are:

- Engage: Engage colleagues at all levels to ensure they have a good understanding of our vision for inclusion and diversity.
- Equip: Equipping our people to enable TS&W to design and deliver more effective inclusive policies and processes.
- Empower: Empowering our people through networks, team discussion and other channels, and to value the contributions of everyone.
- Embed: Embedding inclusion and diversity to build a positive reputation internally and externally.
- Evaluate: Evaluating our inclusion and diversity progress against realistic and achievable targets.
- Evolve: Continuously learn and draw best practice to develop creative inclusive interventions to achieve demonstrable change.

Our D&I committee meet regularly to discuss their goals and set objectives to hold leaders accountable for these targets.

The Group will sign up to the Women in Finance Charter pledge for gender balance in financial services. The Board will review Smith & Williamson's previous targets which had been met and re-commit to future targets for the Group in 2021.

In the formation of the Board and the Executive Committee we have sought to improve gender diversity and are committed to doing this within all levels of the organisation. The following table shows the gender mix with the combined Tilney Smith & Williamson group as at 31 December 2020.

	Female		Male		Total
Organisational level	Number	Percentage	Number	Percentage	Number
Board of Directors	2	18%	9	82%	11
Group Executive Committee	4	31%	9	69%	13
Senior Management	31	24%	100	76%	131
All colleagues (including Group Executive Committee and Senior Management)	1,474	47%	1,658	53%	3,132

The 2019 Gender Pay Gap Report for Tilney Smith & Williamson is available on our websites. The first Gender Pay Gap Report for the combined group will be for 2021. For 2020 we continue to report as separate legal entities. As an employer, we are committed to reducing our gender pay gap and we continue to focus on ways to encourage and support the progression of women into senior roles through recruitment, promotions and mentoring.

Outcomes

Our governance structure and processes have been highly successful during the period. Reporting and controls have operated as they should. Stewardship and ESG integration across our direct investment activities met expectations. Work on the collective/indirect investments and fixed interest made good progress and continues to evolve. We met our voting and engagement targets (further details refer to comments under Principles 10 and 12), introduced much more systematic training and communicated more effectively with our clients. We are on track to meet new EU SFDR related regulations and monitor closely the related UK legislative plans.

Our expectation is that we will be materially increasing the allocation of resources to this area in future years to meet growing regulatory requirements. Over the next 2-3 years we will continue to integrate and build each business segment to the best it can be through investment in processes, systems, data and our teams.

To integrate areas like the MIFID II amendments on sustainability preferences, SFDR requirements for our European business and expected UK equivalents, there is a need for major investment in data quality and systems. Our new investment management system (Avaloq) is a major first step, but several major new projects will be required to fulfil our ambitions on stewardship, responsible investment, digitalisation and automation generally. Too much of what we do currently requires manual intervention. We are looking at ways we can improve our escalation process and outcomes and we are in need of collaborative partners in Europe, Asia and the USA which work as effectively as the Investor Forum.

There is always more to learn, and many challenges remain. The enthusiasm and energy of our colleagues to complete this transformation has been hugely rewarding, but the real test has been increasing client engagement, interest, and demand for specialist ESG strategies, reporting and education.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

We define a conflict of interest as a situation which arises when: our interests or the interests of a partner, director or employee conflict with the duties it owes to a client; or the duties we owe to one client conflict with the duties we owe to another client.

We take all reasonable steps to identify conflicts of interest arising and to manage potential conflicts in a way that is fair to our clients and in accordance with our written policy.

Purpose and scope

The purpose of our conflict of interest policy is to summarise the policies and procedures in place within the Tilney Smith & Williamson group for identifying, minimising and managing conflicts of interest arising from the different business activities undertaken by these companies. The Group Risk & Compliance Committee ("GRCC") is responsible for ensuring the effectiveness of the policy and procedures in relation to each of the operating subsidiaries of the Group. The Board is ultimately responsible.

The Group is required to:

- Take all appropriate steps to identify and to prevent or properly manage conflicts of interest, such as those between (i) the firm and its clients, and (ii) one client and another.
- Maintain and operate effective organisational and administrative arrangements in order to take all appropriate steps to prevent conflicts from adversely damaging clients' interests. If the risk of a conflict of interest is so great that the conflict cannot be avoided or managed by a combination of these and/or other steps in such a way as to ensure the client's interest will not be adversely affected, then the firm will decline to act for that client.
- Fairly disclose the general nature and/or source of the conflict to the client when the organisational and administrative arrangements in place are insufficient to ensure that clients' interests will not be adversely affected.
- Keep records of the firm's services and activities in which conflicts may arise or have arisen.
- Provide clients with a summary of the Conflicts Management Policy.

Ownership and governance

The board of directors of each firm within the Group is responsible for ensuring that the firm complies with all its obligations under the regulatory system, including its obligations to identify, manage and record conflicts of interest. This policy is owned by the Board Risk & Audit Committee (RAC), who are responsible for approving the policy.

The GRCC is responsible on a day-to-day basis for overseeing risk control matters for the UK businesses, including adopting and annually reviewing the Conflicts Management Policy and ensuring its effective implementation (including ensuring that compliance monitoring programmes cover these issues). This review should identify any deficiencies and the actions needed to ensure that appropriate measures are taken to address these. The GRCC should track the resolution of the issues identified and report material issues into the Risk & Audit Committee.

Identifying conflicts of interest

For the purpose of identifying the types of conflicts of interest that may arise as part of our fiduciary duty to our clients, and which may entail a material risk of damage to clients' interests, we take into account whether we, an associate or an employee:

- has conflicting duties to act for clients on both sides of a transaction.
- is acting for a transaction in respect of which it holds relevant confidential information supplied by a current, past or prospective client on the other side of the transaction.
- holds unpublished price sensitive information about the issuer of securities held for clients through/acting in a transaction affecting the issuer.
- is likely to make a profit or avoid a loss at the expense of the client.

- has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of a client, which is distinct from the client's own interest in that outcome.
- has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client.
- carries on the same business as the client.
- receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard fee or commission for that service.
- is substantially involved in the management or development of insurance policies, in particular where such a person has an influence on the pricing of those policies or their distribution costs.

Avoiding and managing conflicts of interest

We avoid and manage these conflicts through a number of policies and procedures. These include:

Maintaining a confidentiality policy

All staff are required to maintain the confidentiality of client information. Such information should not be accessed or communicated except for legitimate business reasons.

Restricting staff dealings in securities

Staff are required to adhere to our personal account dealing policy.

Restricting information flows

We have physical and technical barriers in place, known as 'information barriers'. These prevent information held by other parts of the Tilney Smith & Williamson group, which could restrict dealing, from reaching our investment managers.

Carrying out transactions in investments as agents not as principal

We only carry out transactions in investments as agents for the client.

Gifts and entertainment policy

We have a policy to ensure gifts and inducements received from or given to third parties by members of staff are declared, and pre-approved as appropriate.

Maintaining appropriate and transparent charging policies

Disclosing in accordance with market practice

General potential conflicts inherent to the nature of our business and the structure of the market are disclosed in the written contracts concluded with clients .

Obtaining clients' informed consent

Following disclosure of specific conflicts arising in particular transactions or situations, client consent is received before proceeding.

Example: Our information barriers mean that we can be voting against directors of public companies that are also our clients. For example, in the case of one building company we voted against the remuneration policy and hence a client for not being aligned to clear performance indicators. In another example, where a client was a director of an investment trust, we voted against resolutions they had proposed.

Clients

A potential conflict of interest that could arise from our Investment Management Services could consist of a situation where a firm could exercise voting rights in relation to discretionary client holdings to the detriment of the interests of particular client(s). We would manage this situation by ensuring the firms exercise voting rights in accordance with our Responsible Investment and Voting policies, each vote being cast in the best overall interests of clients. If this might prejudice the interests of a particular client (e.g., by voting the client off the company's board) the firm will cast the vote as considered appropriate for the overall interests of clients but will notify the particular client of the action being taken and the reasons. Clients' may exclude or vote differently on some or all of their portfolio holdings from the voting process.

As part of new client take-on procedures, partners/directors are required to undertake a conflicts check for historical or current relationships which may conflict with the mandate, holdings by clients, directorships of clients and, in the case of a listed company, whether there are material holdings for investment clients. In the latter case they are required to discuss with the Ethics Partner and Legal, the potential for conflicts or reputational risk arising

Example: Recently, an investment manager was asked to become a trustee of a charity local to him, following proper procedure he sought permission from the business to do so, but he then discovered that that charities portfolio was managed by Smith & Williamson, and so he declined to take the position to avoid any perception of a conflict between his fiduciary duty as a trustee, and the commercial objectives as an employee of the Group.

We are not aware of any situations where client detriment has been caused because of a failure to disclose a conflict of interest. Generally, our processes have been designed so that material conflicts of interest are not permitted and therefore do not require management.

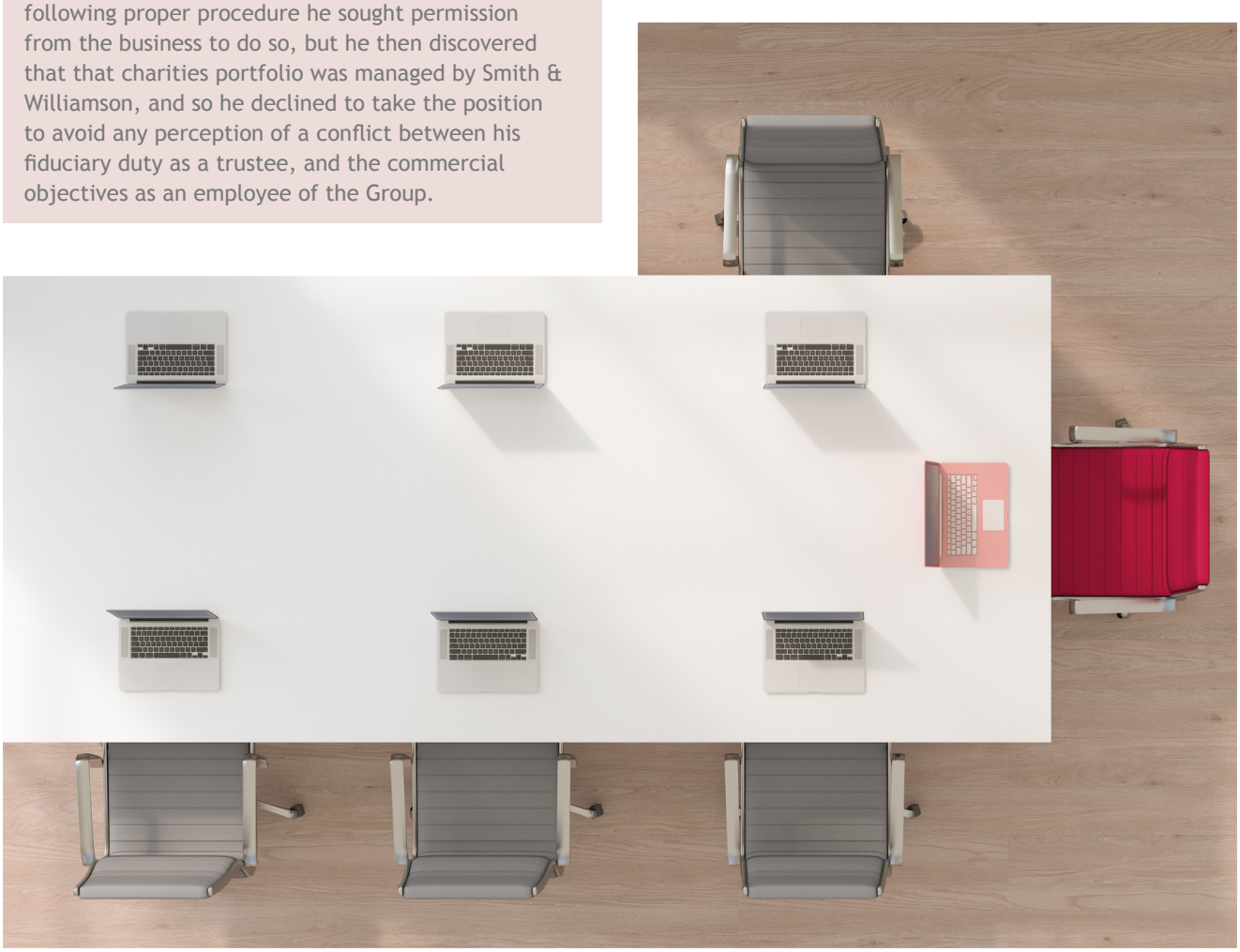
Ownership structure

Tilney Smith & Williamson is not subject to any conflicts arising from its ownership structure. The substantial shareholders of the Group are Permira 56.4% and Warburg Pincus 24.8%. The balance of 18.8% is owned by current and former managers and staff. No third-party product provider or supplier has a material shareholding or financial interest in TS&W (or vice versa) such as to be able to influence TS&W's operating decisions to the detriment of client interests.

Cross-directorships

A member of staff could be a director of a potential new corporate client or could be asked to be a director of an existing corporate client. External business interests require formal approval.

If an existing director becomes a new client, this would be disclosed on the conflicts checklist and a discussion would ensue with head of the relevant business area and our legal colleagues about the management of the potential conflict which could lead us to declining to act.



Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Corporate entity

We identify and assess market-wide and systemic risks from many different angles. From a top-down point of view both the Group Risk Compliance Committee (GRCC) and the Risk & Audit Committee (RAC) are responsible for identifying both systemic and market wide risk.

GRCC are ultimately accountable for ensuring that adequate systems and controls are in place and that the businesses operate in accordance with all relevant legal and regulatory requirements. Group Risk monitors the management of key risks against appetite group-wide, and reports on deviations and material issues relating to subsidiaries to the GRCC. The Group Boards and the Trust Co Boards have delegated risk management and oversight to the GRCC.

They recommend the Group, sub-business and regulated entity Risk Management Policy and Framework to the RAC. They review and recommend the Group's key risks, associated scenario analyses, risk appetite and key risk indicators to the RAC, as well as identify, monitor and consider the key risks facing the Group including: operational, credit, conduct, capital and liquidity, market and climate change risk. They also assess known or emerging risks, including client related risks, and correlations across the business and adequacy of actions to avoid or mitigate the impact of identified risks.

RAC advise the Tilney Smith & Williamson Board on the Group's risk profile and overall risk appetite in setting its future strategy, taking into account the recommendations from the GRCC and the current and prospective macroeconomic and financial environment, drawing on reviews and areas of concern that are published by the FCA and other regulators and authoritative sources relevant to the risk policies of the Group. They ensure that a suitable and effective risk management framework and strategy is in place for the Group and advise the Group boards in that regard. They review and challenge where necessary the effectiveness of the Group's overall risk management framework and internal financial controls and the adequacy of the associated management information, both qualitative and quantitative, and make recommendations to the Group Boards.

Our Group Risk team maintain detailed risk registers including climate risk scenarios and the impact of both physical and transition risk over different time frames. Every committee is responsible for identifying risk and should escalate them through the Governance structure of the Group.

Climate change

Climate change was assessed as a key risk category at Group entity level. The potential exposure to climate risk has been split into two elements, both previously used by the FCA:

- Physical – the risk of climate change affecting the Group's operations.
  - Consideration has been given to extreme weather events and flooding of the Group's offices. Experience from the last year has shown the Group is able to transition to a working from home and establish business as usual functionality in an operational resilience scenario.
  - The key dependency is assessed to be on the availability of national infrastructure facilitating working from home.
- Transitional – the risk to the Group as it moves to new ESG focused regulatory requirements.
  - The risk from transitional developments was explored in the ESG Scenario Analysis shown below which was carried out this year. The first two scenarios centre on the failure to accurately deliver regulatory requirements. The time horizon for these events is set beyond any new TCFD regulations that are introduced.
  - The final scenario is based upon a significant change in climate which causes a market drop of 40%, this is a BOE stress testing scenario.

Likelihood	Scenario Detail	Assessed Financial Impact
Best Case (1 in 10)	A failure in **Trust and Tools** of the Group to correctly monitor and manage a client's portfolio in line with their ESG requirements. This leads to litigation and a single issue at the Financial Ombudsman Service (FOS)	£0.1m
Median Case (1 in 50)	A stressed version of scenario 1 where the Group is assessed as being in breach of all three themes. **Transparency, Trust and Tools** with a systemic failure of ESG requirements. FCA fine due to the failings.	£18.8m
Worst Case (1 in 200)	A 2-4°C rise in temperature which leads to a 40% drop in markets.	£38.1m

Climate change scenarios show impact on group operations. We are starting a project to look at climate risks for clients through scenario analysis.

Investment process - integration of sustainability risks (TS&W ESG integration)

Our central investment strategy team identifies short, medium and long-term risks, including those posed by structural trends, such as climate change and digital conversion, together with the perennial concerns about interest rates, inflation, growth and geo-political risks. We use these to inform the asset allocation process and top-down sectoral recommendations to investment managers.

From a bottom-up perspective, our analysts identify the top 3-5 material ESG impacts for each sector and use this to inform investment decision making. Where this reflects market-wide or systemic risks to certain sectors, this is considered and impacts investment recommendations. Performance of all recommendations is regularly monitored and reviewed over multiple time periods through the IPC governance structures previously described.

Principle Adverse Impacts

TS&W has adopted the approach of sustainability-related disclosures mandated by the EU in the Sustainable Finance Disclosure Regulation (EU 2019/2088) (the Regulation). The Regulation includes provisions requiring relevant businesses to disclose to potential investors how sustainability risks are integrated into their investment processes and the due diligence performed on the principal adverse impacts (PAIs) of their investment decisions and investment advice on sustainability factors (as set out below).

The regulation defines:

- Sustainability risk as an environmental, social or governance (ESG) event or condition which, if it occurs, could cause a material negative impact on the value of an investment.
- Sustainability factors as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

This approach applies to the TS&W discretionary investment management and advisory businesses. The section below describes how these are incorporated within our investment process.

Direct Equity Investments

TS&W receives ESG data from MSCI on all securities in the MSCI ACWI and the MSCI UK IMI indices covering 31 risk factors:

- Environmental: Electronic Waste, Financing Environmental Impact, Packaging Materials & Waste, Product Carbon Footprint, Raw Material Sourcing, Toxic Emissions & Waste, Water Stress, Opportunities in Clean Tech, Opportunities in Green Building, and Opportunities in Renewable Energy.
- Social: Chemical Safety, Controversial Sourcing, Consumer Financial Protection, Health & Safety, Human Capital Development, Labour Management, Privacy & Data Security, Product Safety & Quality, Supply-Chain Labour Standards, Responsible Investment, Community Relations, Insuring Health & Demographic Risk, Access to Communications, Access to Finance, Access to Health Care and Opportunities in Nutrition & Health
- Governance: Corporate Governance (including Ownership & Control, Board, Pay and Accounting) and Corporate Behaviour (including Business Ethics and Tax Transparency).

MSCI provides an ESG score for all securities. For monitored securities, TS&W's sector specialists, responsible for assessing monitored companies (Sector Specialists), may seek to override the MSCI ESG scores where there is a significant divergence between the MSCI score and their own assessment. This ESG perspective is supplemented by our own fundamental research and analysis, and also that from third-party providers, to arrive at an overall qualitative assessment or security recommendation.

This analysis incorporates an assessment of the likely impact of sustainability risks on the returns of these securities. In general, where a sustainability risk occurs in respect of these securities, there may be a negative impact on its value. Sustainability risk can either represent a risk on its own, or impact and contribute significantly to other risks, such as market risks, operational risks, liquidity risks or counterparty risks.

The ESG risk factors affecting all companies within each industrial sector within the MSCI ACWI and the MSCI IMI are then assessed. The top material ESG factors, three to five in total, for each industrial sector represent the key ESG issues for sector specialists to consider.

TS&W assumes that the principal adverse impact on sustainability factors are equal to the top material ESG risks for each sector. This is based on our current interpretation of the regulation and the availability and quality of ESG risk data. We will continue to adapt our policy and related disclosures as industry best practice evolves.

The PAIs per sector are reported to the Stewardship & Responsible Investment Group (SRIG) on a quarterly basis for consideration in the firm's investment process (overseen by TS&W's Investment Process Committee).

Collective Investment Schemes (collectives)
TS&W monitors a selection of funds which then can be used to construct and maintain suitable portfolios. Sector specialists divide up the population of monitored funds into three types: Responsible/Sustainable, Green Tick and Others.

Due diligence is undertaken on each fund under the following headings:

- Industry bodies: Ideally the investment firm/ company should be a signatory to the UN Principles for Responsible Investment (PRI) and/or the UK Stewardship Code, or another equivalent body.
- Investment policy: A fund's investment policy should incorporate the principles of the UN PRI and/ or the UK Stewardship Code in their approach to responsible investment.
- Investment process: The fund manager should be able to describe how ESG is integrated into the investment process.
- ESG resource: Training should be available to all investment professionals. Additional note will be taken where there is dedicated resource and/or external ESG data providers.
- Stewardship: Voting and engagement policies will ideally cover ESG issues.
- Principal adverse impacts: The investment firm/ company should consider and disclose the PAIs of their investments.

Further details are available in our TS&W Sustainability Disclosure Policy: see further comment under Principle 7

Clients

It is also our fiduciary duty to manage investment risk on behalf of our clients.

To ensure that services are suitable the adviser/ investment manager needs to be very clear exactly who the client is, particularly when there is more than one party connected to the account. It is important to be clear who is the subject of the suitability assessment – the person whose knowledge and experience, financial situation and investment objectives (including attitude to risk) need to be considered and reviewed regularly. We take into account:

- Knowledge and experience
- Financial situation
- Investment objectives

By understanding our clients' risk capacity and tolerance and making sure they understand and have the resources to withstand the risk of loss of their chosen strategy this reduces the likelihood of poor outcomes or panic selling at times of market stress which in turn should reduce systematic risks.

Industry groups

TS&W are involved in several industry groups that allow us to engage and inform on promoting a well-functioning financial system, including The Investing and Saving Alliance (TISA). Most recently we have been engaging with TISA on the incoming sustainability disclosure regulations, both those in the EU and those planned for the UK by HM Treasury and the Financial Conduct Authority. We also work closely with the Investors Association (IA) and Personal Investment Management & Financial Advice Association (PIMFA). Our involvement focuses around how to implement the regulations effectively, measurably, and in a way which allows clients to invest sustainably according to their values and preferences.

Collaborative engagement platforms

Additionally, we are a member of two collaborative engagement platforms, as well as the UN PRI, with the UK Investor Forum being an important example, given the body's renewed focus on promoting well-functioning markets.

In response to principle 4 of the 2020 Stewardship Code, the Investor Forum, has established "promoting well-functioning markets" as an additional field of work. They initiated a number of projects which combine our practical focus, the team's extensive experience and the support of members, to identify and promote improved practice. A collaborative effort to address systemic issues can be very effective, provided there is a clarity of objective for any given initiative.

In 2020, the Investor Forum focused on five issues that also helped shape our involvement in promoting well-functioning markets, these were:

- Capital Raising
- Governing for Growth
- Voting Transparency
- Engaging the Engagers
- Say on Climate

COVID-19

We have continued to monitor updates from public health bodies and the Government related to the Coronavirus (COVID-19) pandemic. Our primary objective is to safeguard the health and wellbeing of all our stakeholders, including staff, clients and third parties.

Risk management and operational effectiveness are a key strategic priority for the firm. We have in place a robust Business Continuity Plan (BCP), which is reviewed regularly. Specific to the 2020 outbreak, we undertook a number of important changes to our working practices, which are outlined below:

- Our offices are all COVID-19 secure in line with appropriate Government advice.
- Staff that need to work from the office are able to do so in line with our site protocols and maximum occupancies.
- We continue to support staff to work from home where it is appropriate. All staff have been provided with laptops, additional screens, keyboards, headphones and appropriate chairs.
- Clients are able to speak to their usual TS&W contact using the same phone number and staff members have full access to emails and all appropriate systems.
- We are able to accommodate client meetings virtually, by telephone, by video or on site in line with office protocols, taking into account client preference.
- We published, on a regular basis, insights and commentary to support private clients, businesses, charities and professional advisers on our dedicated COVID-19 website hub, all made available without charge.
- We are continuing to take all sensible precautions to minimise the potential impact on clients, staff and operations and ensure business as usual. Consultation on post-COVID-19 work options for all staff are in process.

Pandemic was a risk noted on our risk register and although we never envisaged the extent of the lockdowns that emerged, we are delighted with how smoothly our risk controls operated, how well the Group continued to function and that clients continued to receive a full investment service, as well as completion of the successful merger of the two firms during the pandemic.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

We believe it is our duty to clients under the SRD II directive to ensure we are transparent in our investment processes by promoting stewardship.

Policies

We maintain a structure of policies under the overarching structure of our responsible investment policy statement. All of these are disclosed on the 'Responsible' section of our website. Stewardship is broken out into various areas which all have a detailed policy. These policies are reviewed annually unless there is a regulatory change that forces an immediate change.

Principle 2 covers the full governance structure. Individual policies are designed by SRIG working groups pulling together operational, legal and compliance expertise as required. These are approved by SRIG and then reviewed by IPC and CRC.

Specific detailed policies covering stewardship include: Voting Policy, SRD II Engagement Policy, Sustainability Disclosure Policy.

Responsible investment policy statement

Our responsible investing policy covers the integration of ESG factors into our investment process and how we act as responsible stewards on behalf of our clients, including through voting and active engagement with investee companies.*

Investment objectives

- We integrate ESG factors into our investment analysis and monitor ESG risks
- We use MSCI screening services to provide ESG data and insights.

Governance

- Oversight of the process is led by the **Corporate Responsibility Committee** (CRC). Investment managers maintain discretion on all investments

Active ownership and engagement

- We vote on all discretionary holdings held by our charity clients and any position above our materiality threshold, and all holdings in companies listed on the London Stock Exchange's Alternative Investment Market (AIM) - this amounts to 750 companies worldwide.

Reporting

- As part of being a signatory to the UN PRI, we submit an annual assessment report. We will also publish our voting record on our website.

Smith & Williamson

Responsible Investment Policy

Policy Introduction

At Smith & Williamson, we are committed to generating superior risk adjusted returns for our clients, by investing in companies that will create long-term value for all stakeholders. As part of this we recognise how environmental, social and corporate governance (ESG) factors and voting and engagement activity can influence the prospects and financial performance of our investments, and play a key part in our responsibility to society, stakeholders and our clients.

This policy will complement our existing investment process including strategic and tactical asset allocation and direct and collective security selection and links to our separate voting and engagement policies. Smith & Williamson is a signatory to the UK stewardship code and a signatory of the United Nations supported Principles for Responsible Investment.

Definitions

We recognise that 'responsible investing' means different things to different people and has no unified definition. However, we believe that a responsible investing policy should take into consideration the following areas: integration of ESG issues and CSR (Corporate Social Responsibility) factors into the investment process and acting as responsible stewards on behalf of clients, including through voting and active engagement with investee companies.

Purpose and Scope

Smith & Williamson is committed to delivering the best possible risk-adjusted returns for our clients and we believe responsible investment supports this aim.

This policy is intended to focus on our direct equity, fixed interest and collective investments held within portfolios managed by Smith & Williamson Investment Management LLP.

We integrate ESG factors into our fundamental investment analysis of directly held securities and monitor the responsible investment activity of third-party funds, in order to protect and enhance long term returns. We are dedicated to providing a bespoke investment management service to match the requirements of our clients, rather than impose our views on them. Accordingly, additional exclusionary or inclusionary solutions are only instigated at the behest of our clients.

External data providers

We use MSCI to provide ESG data, screening and reporting, we use Glass Lewis for proxy voting advice and Broadridge for electronic voting.

Roles and Responsibilities

Our responsible investment policy has been established by the Corporate Responsibility and Charities Committee (CRCC) which reports directly to the main Board of Smith & Williamson. Day to day implementation is the responsibility of the Stewardship and Responsible Investment Group (SRIG), working with the Direct Investment Group (DIG) and the Collectives Investment Group (CIG), all under the overall supervision of the Investment Process Committee (IPC). The Stewardship and Responsible Investment Team are responsible for co-ordinating & reporting on activity, liaising with third party data providers and providing support to all the supervisory groups and underlying analyst teams.

Active Ownership and Engagement

Our client base is a mix of private client portfolios, trusts, charities, pensions and companies. As such, there is a long tail of smaller holdings, held for various reasons, and it would be impractical to vote on every holding. Therefore, we have chosen to impose a materiality screen: we exercise the voting rights for all investments held on a discretionary basis for charity and public benefit clients (as well as for all other discretionary holdings of the same investments) plus any position where we have discretionary authority over more than 1% of the outstanding share capital. This amounts to around 700 companies and investment trusts on a world-wide basis.

Smith & Williamson's voting policy is detailed separately. Broadly, we will focus on:

- transparency and communication
- corporate culture
- strategy
- financial disciplines, structure and risk management
- stakeholders, environmental and social issues
- governance

smithandwilliamson.com

*This policy is intended to focus on our direct equity investments held within the Smith & Williamson Investment Management LLP.

Voting Policy

We use Glass Lewis as our proxy voting agent, but adapt their work to our own policies based on our direct engagement with the firms we invest in. Our focus is on the following areas:

- Transparency and Communication
- Corporate Culture
- Strategy
- Financial Disciplines, Structure & Risk Management
- Stakeholders, Environmental and Social Issues
- Governance

In-line with Principle 9, where we vote against a resolution, we write to the company explaining our position in plenty of time to allow them to provide additional information that often allows us to change our vote - this provides a valuable cross-check to the information provided by our proxy voting provider. All sector specialists (internal research analysts) have direct access to the Glass Lewis proxy voting reports as they become available and receive weekly notification updates. Our sector specialists are consulted as part of the voting process and they pick up the discussion directly with the company as part of their usual engagement. Each vote against a resolution is reviewed by three people - the analyst, a member of SRIG and a member of the SRI team.

All our voting activity is made publicly available each quarter on our website, we can provide individual voting records for each client on request, and we publish the annual voting record with analysis in our annual stewardship report.

Glass Lewis provide an annual review of regulatory changes for each proxy voting region including a discussion forum which allows us to share any concerns and hear the views of other investors. Our own detailed policies are continuously adapted based on our growing practical experience, feedback from the companies, analysts, investment managers, senior staff and informal client discussions.

SRD II Engagement Policy

Our engagement is based on integrating ESG factors alongside traditional financial metrics when making investment decisions according to the criteria set out under Principle 1. Investee companies are monitored on:

- Strategy
- Financial and non-financial performance and risk
- Capital structure
- Social and environmental impact and corporate governance

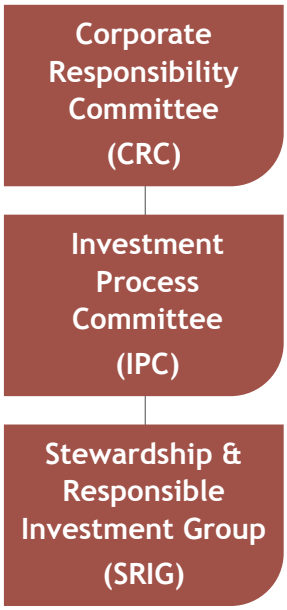
Smith & Williamson were compliant with SRD II for discretionary clients in 2018 and became compliant for non-discretionary clients in 2020 and our policies were updated accordingly.

Sustainability Disclosure Policy

This is mandated by the EU Sustainable Finance Disclosure Regulation (EU 2019/2088) which was adopted as a Level 1 requirement as at 10 March 2021 for our Dublin based operations, but applies across the whole group. Level 2 RTS rules are subject to further consultation and are awaiting finalisation, adoption and integration with EU environmental taxonomy requirements later in the year. The expectation is that the UK will adopt broadly equivalent regulations.

The requirements at Level 1 broadly track existing Smith & Williamson policies (we already integrated ESG and sustainability risks into our investment process as responsible investors), but detailed Level 2 EU requirements proposed by the EU regulators represents a significant step up in reporting with regards to PAI's (Principal Adverse Indicators) and for prescriptive disclosures required for any Article 8 and 9 products (i.e. those that promote ESG characteristics or have sustainable investment as their objectives).

Monitoring effectiveness



We recognise that responsible investment is continually evolving and therefore we need to ensure that our policies remain relevant. These policies and their effectiveness are reviewed at least annually by CRC, IPC and SRIG and more regularly as changes are required. All activity is documented, the process is designed to be completely transparent with numerous checks and balances as noted elsewhere under Principle 8. We are in the process of integrating legacy Tilney policies with the legacy Smith & Williamson policies.

In alignment with Principle 9, prior to publishing, the detailed unredacted (client sensitive information is not published publicly) quarterly voting and engagement reports are also reviewed by SRIG, IPC and CRC. The reports show voting by region, for/against management and by proposal category type. Direct engagement is shown company by company – the issue and the outcome. Collaborative engagement outcomes rely on the reporting by the organisations involved.

To ensure all stewardship and responsible investment activities are monitored effectively, we have various committees to oversee the processes. Stewardship is embedded into each committee who also have a member of the risk team attend.

Assurance

There is currently no external assurance of our stewardship activities. However, the Risk and Audit Committee (RAC) have appointed BDO LLP to provide internal assurance of our stewardship activities. Abbreviated terms of reference for BDO's review include as follows.

Review of the key documentation in order to build understanding of the area and consider the sufficiency of the documented control environment from a design perspective. Conduct interviews with key staff to establish the controls and governance arrangements that are in place. Key documentation will be evaluated for suitability, taking account of the activities involved, regulatory requirements and the way that TS&W operates.

Element	Basis Of Evaluation
Stewardship Framework / Report	High level review and assessment of the design of the Stewardship Report. Specifically our assessment will cover the firms approach to: Purpose and Governance (Principles 1-5); Investment Approach (Principles 6-8); Engagement (Principles 9-11); and Exercising rights and Responsibilities (Principle 12).
Processes and Controls	Undertake sample testing of Smith & Williamson's stewardship processes and controls listed within the "Stewardship Report" to evaluate the operational effectiveness and adherence to the Code. Specific focus will be on the policies and controls around: Principle 1 – how stewardship affects decision making Principle 2 - how the governance process supports stewardship activities Principle 4 – how Smith & Williamson consider market wide and systemic risks Principle 5 – how Smith & Williamson maintain their stewardship policies and procedures Principle 7 – how ESG factors are considered in the investment approach Principle 8 – how Smith & Williamson monitors external managers and key third parties Principle 9 – how Smith & Williamson engage with investee companies Principle 10 – how Smith & Williamson collaborate to influence investment decisions Principle 11 – how escalations are undertaken Principle 12 – how voting is performed

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Tilney Smith & Williamson offers bespoke portfolio management aligned to individual clients' objectives and risk appetites. Our client base is a mix of private client portfolios, trusts, charities and companies. Accordingly, it is of the utmost importance that we take account of each clients' needs and communicate regularly these activities and outcomes.

Assets Under Management - (AUM) Breakdown

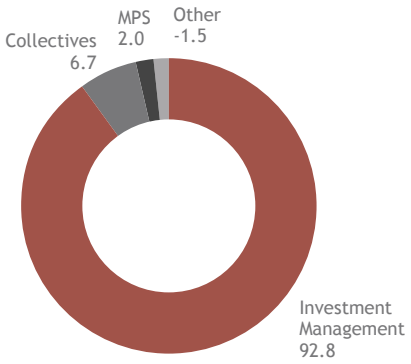
Below we have shown the records of our funds under management, broken down by client type, asset class, and asset geographies (for direct and indirect equities), data as at 31 December 2020. The overwhelming majority of clients are UK or Dublin based and classified as retail investors. The breakdown below reflects only the legacy Smith & WIlliamson clients, in future reports we will report on the combined group.

AUM by type and number of accounts, FY2020	£m	Accounts
Discretionary	21,602	32,939
Advisory / Non-discretionary / Execution only	2,400	3,660
Total	24,002	36,599

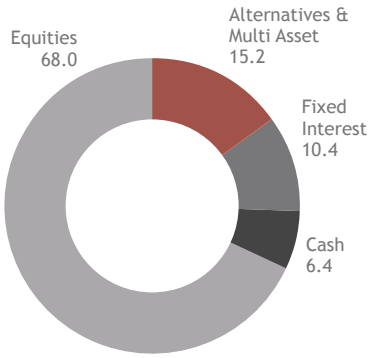
AUM by type of accounts, FY2020	£m	%
Investment Management	22,279.8	92.8
Collectives	1,605.9	6.7
MPS	477.0	2.0
Other*	-360.6	-1.5
Total	24,002.1	100.0

*Other includes accounts or portfolios not split out in the categories in the above table, and allows for the overlap between Investment management and collectives. Figures may not add to 100% due to rounding.

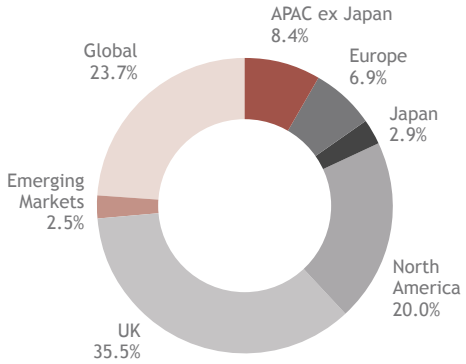
AUM by type of accounts



AUM by Asset Class



Equity Allocation by Geography



Client Portfolios

As we manage bespoke portfolios on behalf of our clients, each of them varies on composition based on the following requirements:

- Portfolio size
- Investment objective
- Target income
- Target total return
- Risk tolerance
- Time horizon
- Liquidity
- Investment constraints, such as tax
- ESG and ethical preferences

Each client goes through a comprehensive fact-find prior to their account being opened. Seeking our clients' views and values is an integral part of this discussion and is well documented on their application form. These views are formulated into actionable investment guidelines and agreed with the client. This is reviewed with the client on (at minimum) an annual basis. This approach is used to ensure each client can tailor their portfolio to their individual views and values.

Client sustainability and ethical preferences form part of the overall investment strategy, where they do not impact on overall portfolio suitability. Where a client wishes to place a formal restriction on certain assets, sectors or companies to reflect their values, this is implemented and monitored at a desk level, and internally audited by the SRI Team.

The Asset Allocation Committee has responsibility for setting strategic and tactical asset allocation, which is regularly reviewed by IPC. While the strategic asset allocations are set according to our long-term expectations of risk, tactical asset allocation seeks to exploit more variable short term market behaviour. In addition, we also create bespoke investment portfolios for our clients to meet their requirements, goals and values as well as suitability considerations. This means each client has their own investment time horizon based on their individual requirements. These fall under three categories, short-term (<1 year), medium-term (1-5 years) and long-term (>5 years). To invest a significant proportion of a portfolio in equities requires a time horizon of greater than five years, reflecting the volatility of this asset class and the need for a longer time horizon to make sure the strategy meets its objectives.

We do regular client surveys to help understand what is important to our clients. However, more importantly, is the relationship between client and investment manager. Understanding our clients and what is important to them is an integral and ongoing part of the relationship, which helps us shape bespoke portfolios to meet their needs.

Our most recent Client Satisfaction Survey showed that 94% of our clients have said we are excellent or above average at understanding their needs.

Reporting

Every client receives a quarterly valuation that includes specific geographical and asset class breakdown, alongside details of all holdings in the portfolio. Each valuation includes house commentary from our strategy team, and a detailed bespoke summary from the investment manager on at least an annual basis.

Clients have access to our quarterly voting and engagement report which is on our website and details how we have voted on their behalf. Clients can also request ad-hoc statements of all votes relevant to their portfolios. Examples of our engagement activity is highlighted in our Annual Stewardship & Responsible Investment Report.

All clients have control over how their voting is conducted and what restrictions or requirements are placed on their portfolio. As standard, all discretionary portfolios are voted on in line with the Smith & Williamson voting and engagement policies. However, clients can request at any time that their holdings are excluded from this, or specific holdings are voted on according to their preference.

On sustainability, clients can receive ad-hoc reports on the ESG rating of their portfolio and underlying holdings, carbon reports and positive impact reports. These can be used to assess ongoing activities to adjust the overall sustainability of portfolios, as well as the success of these activities. We have found that these reports often need significant explanation and careful caveating. We have found it necessary to set-up specific meetings with clients to walk them through the indicators shown and we are introducing wider client training programmes from May 2020.

Additionally, we aim to improve the knowledge base of our clients, through the production of responsible investing articles and thought pieces, as well as regular conferences and webinars including our trustee training and responsible investment conferences.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Responsible investment is increasingly being required as part of our fiduciary duty to our clients, as well as a regulatory requirement. It is also now considered industry best practice for asset managers and is of growing importance to our clients. To remain competitive, we must show that we have strong responsible investment capabilities, so clients know that we are taking non-financial Environmental, Social and Governance (ESG) issues into account when making investment decisions on their behalf. The majority of our client portfolios are bespoke which allows each client to express their own responsible investment preferences. Based on the UN Principles for Responsible Investment (UN PRI) definition, we define Responsible Investment as the practice of incorporating ESG factors into investment analysis alongside traditional financial factors, and the practice of active ownership/stewardship. Note: responsible investment is often used as an umbrella term for any process where environmental and/or social inputs or values are considered alongside purely financial considerations.

Responsible investment requires a robust, nuanced but repeatable process. The goal is to integrate ESG factors and practise active ownership in a way that enhances the existing investment process and improve long-term outcomes for clients. The integration of ESG factors is to be done at the analyst level and feed into recommendations for direct and collective investments and informs our voting and engagement activities.

ESG factor integration is done using primarily qualitative analysis, using data and research primarily from MSCI ESG Manager as well as other internal and external resources. Our sector specialists (research analysts) use this in addition to their specialist knowledge of the sector and the company. All research is shared across the firm on the internal investment portal, where investment managers find the details on monitored assets.

All our sector specialists are also investment managers with client responsibility. This ensures that our research is produced from a practical buy-side perspective and that our analysts have a stake in the ideas they produce (as they will buy these for their own clients).

Sector specialists carry out relevant thematic research as appropriate to their sector, and this forms part of the recommendation process. The strategy team also provides macro thematic research that informs this process.

Direct

For direct investments MSCI ESG Manager provides ESG data points for all companies on the MSCI ACWI and the MSCI UK IMI, ESG ratings and industry/thematic research, as well as business involvement screening. We receive additional ESG and thematic research from our third-party research providers.

We are trying to make the best decisions that we can on each holding but recognise that our resources have limits. We therefore prioritise these material factors for each company and sector rather than focus on the same specific issues across all sectors. Put another way, the issues we care most about are the ones that will have the greatest financial impact, positive and negative on each investment. When analysing a company, analysts must take note of the MSCI ESG rating and the material ESG factors for the sector in which the company operates, typically three to five. We encourage sector specialists to understand the drivers behind the MSCI ESG rating, but also to use their own judgement to ascertain if the driving factors are important to the long-term performance of the individual company.

MSCI provides an ESG score for all securities. For monitored securities, TS&W's sector specialists, responsible for assessing monitored companies (sector specialists), may seek to override the MSCI ESG scores where there is a significant divergence between the MSCI score and their own assessment. This ESG perspective is supplemented by our own fundamental research and analysis, and also that from third-party providers, to arrive at an overall qualitative assessment or security recommendation.

Concurrently with the assessment of the MSCI ESG score, analysts must also list the most material ESG factors for the sector. These must be addressed specifically, with sector specialists evaluating the short, medium and long-term impact on performance of these factors.

These material ESG factors are generated from aggregating materiality scores across 31 environmental and social indicators for all companies in the MSCI ACWI and MSCI UK IMI. This is done to ensure analysts prioritise the most relevant issues when analysing a company and sector.

- Environmental: Electronic Waste, Financing Environmental Impact, Packaging Materials & Waste, Product Carbon Footprint, Raw Material Sourcing, Toxic Emissions & Waste, Water Stress, Opportunities in Clean Tech, Opportunities in Green Building, and Opportunities in Renewable Energy.
- Social: Chemical Safety, Controversial Sourcing, Consumer Financial Protection, Health & Safety, Human Capital Development, Labour Management, Privacy & Data Security, Product Safety & Quality, Supply-Chain Labour Standards, Responsible Investment, Community Relations, Insuring Health & Demographic Risk, Access to Communications, Access to Finance, Access to Health Care and Opportunities in Nutrition & Health.
- Governance: Corporate Governance (including Ownership & Control, Board, Pay and Accounting) and Corporate Behaviour (including Business Ethics and Tax Transparency).

This analysis incorporates an assessment of the likely impact of sustainability risks on the returns of these securities. In general, where a sustainability risk occurs in respect of these securities, there may be a negative impact on its value. Sustainability risk can either represent a risk on its own, or impact and contribute significantly to other risks, such as market risks, operational risks, liquidity risks or counterparty risks. The ESG risk factors affecting all companies within each industrial sector within the MSCI ACWI and the MSCI IMI are then assessed. The top material ESG factors, three to five in total, for each industrial sector represent the key ESG issues that we consider.

The data is refreshed every quarter to ensure the relevant factors are being monitored. These factors form part of the recommendation process. Where an ESG factor impacts the investment case of a stock, this feeds into the overall stock recommendation.

These also form some of the key areas of engagement when analysts speak to company management, where analysts can further interrogate the materiality of these issues for the individual company and analyse their responses and targets.

The process initially is the same for all sectors and geographies, however sector specialists use their knowledge and judgement to adjust expectations and relevant factors for analysis. We use the same reports and ESG approach for direct fixed interest as we do for direct equity holdings.

Indirect

The responsible collective process applies to all funds that are formally monitored by TS&W sector specialists and are included on the monitored collectives list. These monitored collectives can be broken down into three categories: funds eligible for the responsible list, green tick funds and all other funds.

Funds eligible for the responsible list have responsible strategies/mandates in place which mean they should not sit alongside mainstream funds on the wider collectives list, as their resulting investment universe is heavily altered or restricted compared to the conventional peer group.

Any fund can be eligible for the green tick mark where ESG considerations are well embedded into the investment process and/or show a robust commitment to positive inclusion.

All funds, regardless of whether they are eligible for the Responsible list or a Green Tick mark, are subject to ESG due diligence, that focuses on the investment philosophy and process, any restrictions or specific inclusions, internal and external research as well as assessing their voting and engagement policy.

The due diligence is the same across asset classes and geographies, however context is used when assessing the quality of ESG processes in a fund. For example, voting policies and records are not relevant for fixed interest funds, whereas we would expect that emerging market vehicles rely more on internal resource as external sources are less available.

The results of this due diligence are shared with the fund management teams where we believe that the disclosures or processes require improvement. Previously, we have been chiefly focusing on whether the fund is a signatory to the UN PRI and Stewardship Code, as these bodies require a certain level on ESG integration and stewardship.

For alternative investments such as private equity, real estate, infrastructure, commodities and hedge funds our access to third party data source is much lower. For funds holding private assets, MSCI screening scores are generally not available. Many of these companies produce their own assessments which we are able to effectively review, but currently cannot include our own assessments in portfolio reports which rely on MSCI tools. For hedge funds data is limited.

Active Ownership

Active ownership is done at a firm level, directed by the Stewardship & Responsible Investment team. We receive recommendations from Glass Lewis, our proxy voting provider, but enforce our own policy that is built from our experience and engagement with the companies, as well as the expertise of our investment analysts and managers. All proposals to abstain or vote against a resolution are reviewed and signed by three members of the Stewardship & Responsible Investment Group. Where the company in question is AIM listed or an investment trust, we include our

AIM and investment trust specialists as one of the signatories. Recommendations are also reviewed by the responsible analyst as well as the material holders. Our approach can be found in our Voting and Engagement policies.

In order to prioritise engagements and resources in the most effective way, we have selected only two collaborative engagement platforms to work with. Each of these addresses key issues that are a priority:

- The Investor Forum
- Climate Action 100+

Teams and resource

There are two teams that support our investment managers with stewardship and responsible investment. The Stewardship & Responsible Investment team (SRI) is a dedicated team that provides investment front office support in all stewardship matters (including proxy voting services and leading collaborative engagements) as well as supporting the management of responsible portfolios, providing screening resources and additional data.

We also have investment managers that are ESG specialists and are embedded as part of the investment management team. They provide support to the wider front office investment management teams with ESG integration, thematic investing and client communication. We also provide further ESG training for all our investment professionals, to ensure a consistent level of knowledge and understanding. We use MSCI as the main external source of Environmental, Social and Governance (ESG) and ethical screening services for both direct investments and funds. We also make use of Morningstar /Sustainalytics (via Glass Lewis) and data available from Bloomberg and Refinitiv. Our sell-side relationships increasingly add valuable ESG insight through their work. Our in-house sector specialists conduct in-depth research into UK and overseas equities by holding over 500 meetings with companies' management each year as well as undertaking media and other desk-based research. This engagement with companies enables us to fulfil our stewardship responsibilities. At Smith & Williamson we believe that voting plays an integral role in active engagement and support our clients' right to vote. We use Glass Lewis to provide voting research which we incorporate into our voting policy.

Remuneration

As outlined under Principle 2, our Remuneration Policy comprises all relevant feedback, including non-financial criteria, which is provided to the remuneration committee for consideration in the assessment of variable remuneration. This includes whether the investment process has been followed with regard to matters such as asset allocation, security selection, responsible investment and investment risk management, including sustainability risks.

All our sector specialists are also investment managers with client responsibility. Our analysts receive additional performance-based bonuses linked to their analyst responsibilities, with ESG integration representing a core tenet of the analysts' responsibilities.

Oversight

Oversight and steering of this process is led by our Investment Process Committee and managed by the Stewardship & Responsible Investment Group, the Direct Investment Group and the Collective Investment Group.

Case study - RWE

RWE has an average score according to the MSCI ESG Manager given its coal and lignite assets, meaning it still has relatively high carbon emissions risking additional costs. Our analysts have overruled this assessment:

"RWE is transitioning its business model away from legacy positions in coal and lignite and becoming a purer play on long-term structural renewables growth. With 28GW of installed capacity, RWE is already a leader in the space and is well positioned to harness the future growth potential of the renewables market, which the IEA forecasts will triple by 2040.

"RWE remains a fairly cheap way into renewables and trades on a c.30% discount to pure-play renewables peers Orsted and EDPR on 18x forward earnings with a 2.3% dividend yield. The discount is driven by the legacy coal and lignite operations, which represent 20% of EBITDA. The group aims to phase out coal by 2038 and nuclear by 2022. By 2023, coal will represent <25.0% of total capacity and <10% by 2030.

"84% of FY20 capex complied with the criteria of the EU taxonomy, underpinning the significant green transformation of the business since the asset swap with E.ON. The hard coal plants in Ibbenbüren and Westfalen will soon be decommissioned and moved into grid security reserve until final shut down in summer 2021, meaning that RWE will then no longer run any hard coal plants in Germany. Emissions are down 60% since 2012 and with coal and lignite being phased out, the group targets carbon neutrality by 2040."

This was also discussed with company management in September 2020, where our sector specialists received a better understanding of the transition efforts that RWE is making. RWE is now recommended to clients, including those with sustainability preferences (except where there is a coal or nuclear restriction). This allows our clients to access a company towards the beginning of its low carbon transition and benefit from the success as it moves away from coal and into renewable utilities.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Our fiduciary duty to our clients is at the heart of everything we do so ensuring that our managers and service providers are monitored is extremely important to us.

Internal Governance Arrangements for outsourced service providers

Tilney Smith & Williamson has implemented an appropriate governance structure with clearly defined roles and responsibilities:

The Board of Directors has overall responsibility for ensuring that all ongoing outsourcing decisions taken by Tilney Smith & Williamson, and activities undertaken by third parties, are in keeping with this policy.

Senior management (first line of defence) is responsible for the implementation of the outsourcing policy and procedures, with day-to-day management assigned to the Relationship Owners.

Each outsourcing arrangement is assigned a Relationship Owner (first line of defence), who has sufficient expertise and experience to understand the nature of the services or activity being outsourced and thus is able to manage the associated risks.

Group Risk and Group Compliance (second line of defence) are responsible for reviewing and challenging the effectiveness of the identification, assessment and mitigation of the Group's key risks, including those associated with outsourced service providers. The Group Central Services function provides support and technical advice to Relationship Owners with respect to the establishment and ongoing management of such arrangements, plus it conducts annual due diligence assessments to confirm service standards remain acceptable and that appropriate governance and controls remain in place.

Internal Audit is the third line of defence. Internal Audit will ascertain:

- That Tilney Smith & Williamson's framework for outsourcing, including the outsourcing policy is effectively implemented and in line with applicable laws and regulation.
- The adequacy and effectiveness of the assessment of critical or important functions.
- The appropriate involvement of governance bodies.
- The appropriate monitoring and management of outsourcing arrangements.

The Board of Directors has delegated authority to the Group Risk & Compliance Committee ("GRCC") for monitoring the effectiveness of Tilney Smith & Williamson's outsourcing framework.

GRCC periodically receives Management Information (MI) on existing outsourcing arrangements to facilitate monitoring of the effectiveness of those arrangements and the level of risk associated with them.

Critical or important functions

Before entering into any outsourcing arrangement, Tilney Smith & Williamson assesses whether the planned outsourcing concerns a critical or important function. As per SYSC 8.1, "An operational function is regarded as critical or important if a defect or failure in its performance would materially impair the continuing compliance of a common platform firm with the conditions and obligations of its authorisation or its other obligations under the regulatory system, or its financial performance, or the soundness or the continuity of its relevant services and activities."

Based on the above, at Tilney Smith & Williamson, a relationship is described as critical if any of the following apply:

- A defect or failure of the service being provided would impair:
  - continuing compliance with regulatory or statutory requirements;
  - financial performance or the continuing ability to conduct business;
  - soundness or continuity of investment services or activities;
  - ability to service clients in a timely and appropriate way.

- The outsourced service, regardless of size, is performing a regulated activity.
- Where the financial cost in any single financial year is expected to be significant (note that a contract value of up to £200,000 requires the Authorisation of the Group CFO or the Group CEO).

Where the outsourced relationship is one relating to an FCA, JFSC or CBI-regulated entity, Tilney Smith & Williamson notifies the relevant regulator when it intends to rely on a third party for the performance of operational functions which are critical or important for the performing of relevant services and activities on a continuous basis.

Risk assessment

Before proceeding with the initiation of a critical or important outsourcing arrangement, Tilney Smith & Williamson ensures that it conducts a risk assessment.

When assessing the risks of a potential outsourcing arrangement, Tilney Smith & Williamson balances the expected advantages of the proposed outsourcing arrangement, including any risks which can be managed and mitigated, against any potential risk which may arise as a result of the proposed outsourcing arrangement, taking into account, inter alia, the following:

- Concentration risks, from multiple outsourcing to the same or related service provider.
- The level of cyber risk posed by the potential outsourced arrangement.
- The level of bribery risk posed by the potential outsourced provider.
- The level of tax evasion risk posed by the potential outsourced provider.

Where a potential outsourced provider presents a significantly high-risk exposure, Tilney Smith & Williamson will not proceed with the initiation process.

Due diligence

The level of due diligence conducted is proportionate to the risks associated with the outsourcing arrangement.

For critical functions, in line with FCA rule SYSC 8.1.7R, before entering into an outsourcing arrangement Tilney Smith & Williamson ensures that the service provider has appropriate and sufficient ability, capacity, resources, organisational structure and, if applicable, the required regulatory authorisation(s) to perform the critical or important function.

Where client data will be held or processed by an outsourced service provider, the provider must also demonstrate robust cyber controls and have adequate cyber insurance.

As part of the due diligence process, technical expertise is sought from the relevant teams, for example, when reviewing the financial statements of the provider the Finance department is consulted for guidance.

The implementation, monitoring and management of outsourcing arrangements

We consider the service providers to be an essential part of our investment process.

Tilney Smith & Williamson monitors the performance of service providers on an ongoing basis, with a particular focus on the outsourcing of critical or important functions. In addition, Tilney Smith & Williamson ensures that outsourcing arrangements meet appropriate performance and quality standards.

Where indications are identified that service providers may not be carrying out the outsourced function effectively, Tilney Smith & Williamson takes appropriate corrective or remedial actions.

Each outsourcing arrangement is also subject to an annual review using the Annual Review Template.

This exercise is conducted by the Group Central Services function.

Our contract negotiation team like to sign longer-term contracts. This enables us to maximise our return on our internal training and support efforts.

We hold annual meetings with all our service providers and research tools to ensure we are aware of any recent developments and upcoming system changes. This enables us to plan any training sessions with our in-house analysts. We also hold various meetings throughout the year with service providers. Our relationships with service providers are reviewed regularly and new providers are always considered when existing contracts are approaching renewal.

Service providers

MSCI

We use MSCI ESG Manager as a screening tool and to provide detailed ESG research. We have quarterly meetings to discuss our ongoing needs and how they are being met. If there are circumstances where we have an issue, they are raised as a ticket and tracked until they are resolved. During these meetings we also arrange training sessions between their industry specialists and our sector analysts. We hold these sessions throughout the year.

We also have regular meetings with MSCI to discuss any issues we are having with the system, developing requirements and to gain better understanding of methodology. Investment managers and clients often request clarification on figures displayed where the numbers seem inconsistent. We often ask MSCI to provide clarification on the methodology used in their products. This enables us to better monitor the research we receive from them.

We also flagged intermittent issues with accessing their platform. We have worked with MSCI to ensure our monitored universe has adequate fund coverage. MSCI worked with us to identify the reasons behind the lack of coverage and improve the data available. In order to get ESG fund data available on MSCI, we undertook a project to identify the funds which were not covered by MSCI. For those funds, we then wrote to each investment manager to ask them to share their fund holdings to Lipper so the data would become

available in MSCI. While this project is ongoing, we have already seen a significant increase in coverage.

We have also been in discussion with MSCI regarding unmonitored asset types, such as infrastructure and private assets, and continue to work towards finding a solution.

Glass Lewis

We use Glass Lewis as our Proxy Voting adviser service. We hold regular meetings with them to discuss the service we are receiving and the issues we encountered. For example, we signalled system speed issues. Glass Lewis worked on these and the speed has improved since then. We plan when renewing our contract that we will add an SLA clause (Service Level Agreement) to ensure issues such as these do not happen again.

In addition, we are attending various Glass Lewis organised meetings and webinars throughout the year in order to keep up to date with global regulations, policy changes and evolution of their products.

We routinely monitor Glass Lewis recommendations pointing out contradictions if they occur, discussing company feedback on recommendations or differences with Smith & Williamson policies and checking for updates on recommendations prior to voting. Any vote where they have recommended that we abstain or vote against, is reviewed by a minimum of the sector specialist, a member of SRIG and a member of SRI, as well as any material holders in-house. Where the company is AIM listed, or a close-ended fund, the AIM and investment trust specialists are included. The process of immediately writing to the Chair of a company we vote against, gives the opportunity for the company to correct or update or provide additional information that does on occasion lead us to amend our vote.

Broadridge

Broadridge provide the electronic voting system liaising between our safe custody team our custodians, Glass Lewis and company share registers. Voting records are automatically checked and mismatches identified as part of the process.

We worked with Broadridge to develop our SRD II solution. We upgraded to Broadridge's enhanced end-to-end Global Proxy solution to fulfil our new responsibilities under SRD II. This included the distribution of meeting agendas within stricter timeframes, reconciling votes on a daily basis and processing votes "without delay." It also handled all aspects of vote confirmation, including timely electronic confirmation back to shareholders.

Third party funds

All asset managers for our monitored collective funds are assessed regularly, with a minimum of one meeting a year with management to discuss the portfolio, market changes, management, performance, responsible investment and stewardship. Where a fund falls short in any of these areas, analysts review the fund for a rating downgrade or a removal from coverage. Any change of rating or coverage is communicated with the asset manager and will include suggestions for improvement.

An integral part of our investment process is ensuring we do due diligence on all of our monitored collectives. We ensure that these external managers have been put through a thorough screen.

The following factors reflect due diligence queries for all collectives:

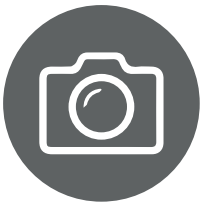
- Industry bodies: Ideally the investment firm/company should be a signatory to the UN PRI and the UK Stewardship Code, or another relevant/equivalent body.
- Investment Policy: A fund's investment policy should incorporate their approach to responsible investment.
- Investment Process: The fund manager should be able to describe how ESG is integrated into the investment process.
- ESG resource: Training should be available to all investment professionals. Additional note will be taken where there is dedicated resource and/or external ESG data providers.
- Stewardship: Voting and engagement policies will ideally cover ESG issues.
- PAIs: Does the investment firm/company monitor and disclose on the principal adverse impacts of their investments on sustainability factors.

Case study - Woodford Equity Income Fund

In March 2019, our UK analysts downgraded the Woodford Equity Income Fund to negative after they engineered a swap of £73m of the income funds unquoted investments with newly issued shares of the Woodford Patient Capital Trust. This was portrayed by management as beneficial to clients, as it allowed them to retain the unquoted exposure in a more liquid investment trust structure.

However, our analysts believed that the lacklustre performance of the fund led to redemptions that had to be funded through selling the listed shares, leaving an untenable unquoted exposure at 18%. The cost of the swap for investors stood at a £9.5m paper loss. The swap also led our analysts to further question the corporate governance controls in place.

They advised that the fund was no longer suitable for UK Income investors and encouraged redemption. This was 3 months before the suspension in June 2019, which was placed after four weeks of significant outflows.



Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

As a responsible investor and as a signatory to the United Nations Principles for Responsible Investment (UN PRI), Smith & Williamson are committed to ensuring that we monitor and engage with investee companies on behalf of our clients. As part of this we are committed to improving the transparency of our reporting with the aim of enhancing and demonstrating value for our clients. As noted within our responses to Principle 1 and Principle 6 we are long term investors, with the majority of clients receiving a bespoke service that allows them to exclude stocks and sectors or tilt portfolio to desired outcomes. We are active stock pickers so meeting and engaging with companies is a normal part of what we have always done. Many of our clients are tax constrained which means that active engagement becomes even more important as divestment would be especially expensive. We meet and report to each client regularly to keep them informed and to make sure we know when their circumstance or constraints have changed.

We monitor investee companies on relevant matters including:

- Strategy
- Financial and Non-financial performance and risk
- Capital Structure
- Social and environmental impact and corporate governance

We believe that by engaging with companies we can improve the outcome and ensure the investee company take into consideration our concerns.

We apply the same broad engagement principles across all assets and geographies. We are most effective in our home territory and in more specialist areas such as investment trusts and AIM stocks where we have a proportionately larger voice.

Collaborations

We choose to take part in larger collaborative engagements through memberships with collaborative engagement platforms such as Investor Forum and Climate Action 100. Through these memberships we are able engage more meaningfully with larger issuers where we represent a small shareholder minority. Examples of relevant collaborative engagements can be found under Principle 10.

Identifying engagement opportunities

Both the Direct Investment Group (DIG) and the Collective Investment Group (CIG) set engagement targets for analysts in their area. Weekly sector specialist meetings take place where each sector is analysed and key material factors are flagged and engagement priorities are discussed in this process, principally based on whether we think they are detrimental to long term valuation of the business. These engagements are overseen by the Stewardship & Responsible Investment Group (SRIG).

For example, the ESG analysis of the company Stryker indicated some issues with product safety and quality that was a cause for concern. The sector specialist took this away to investigate further, and following engagement with Stryker, they came to the following conclusion:

"Stryker scores particularly poorly on product safety, however, in 2020, they took a number of positive steps such as implementing an updated Corporate Responsibility strategy, hiring senior leaders to drive the corporate responsibility and sustainability efforts, and beginning due diligence on other areas (e.g. water reuse and waste reduction during the manufacturing process)."

Therefore, although they are rated relatively poorly by MSCI, our view is that they are at an earlier stage than their peers and are taking steps to improve their ESG practices.

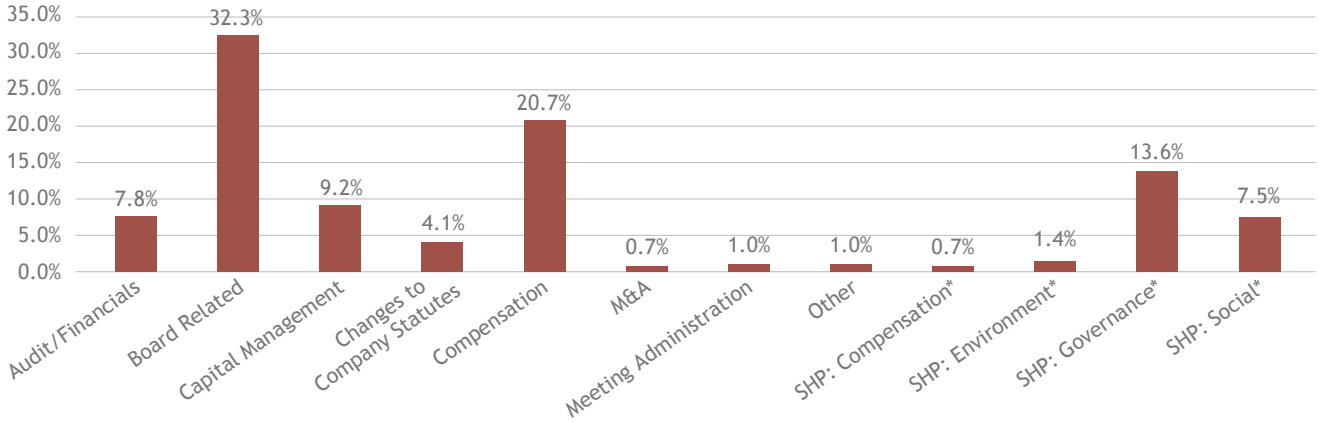
For direct holdings, over 70 sector specialists conduct in-depth research into UK and overseas equities by holding over 500 company meetings each year as well as undertaking media and other desk-based research.

Collective analysts currently cover around 480 funds across 16 sectors, including open ended funds, investment trusts and offshore specific funds. The analysts regularly meet with fund managers and closely monitor the performance of covered funds. This includes an annual review of the fund managers' own Responsible Investment policies including Stewardship Code and their UN PRI submissions where applicable.

We have had limited ability to engage on fixed income as we are not a large enough fixed interest investor and are not consulted on the covenants in loan agreements at issue. We actively monitor the ESG issues related to the company itself and our fundamental analysis places significant weight on balance sheet issues, especially gearing levels and interest cover.

Where we have concerns about the performance or strategy of an investee company or fund, or where we have reason to believe that our clients' rights as shareholders are being compromised in any way, we will, in appropriate circumstances, escalate our involvement with investee companies or the relevant fund manager. Whilst we do not believe in the micromanagement, in some cases we feel that it is necessary. This could include issues with board independence or remuneration. In cases such as these we would open a dialogue and write to the company/fund manager or meet directly with management to express our concerns. In some circumstances we would be willing to act collaboratively.

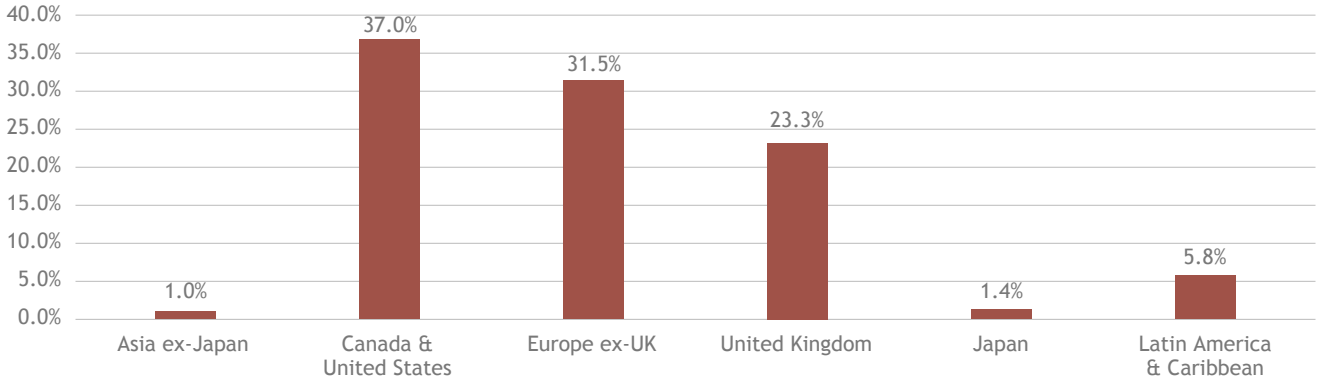
Engagement by Theme



*SHP: Shareholder Proposal

Source: Glass Lewis

Engagement by Region



Source: Glass Lewis

In cases where we deem it necessary, and where our Stewardship & Responsible Investment Group agree, we will abstain or vote against management resolutions. Where we abstain or vote against management resolutions, we always write to the Chair of the Board to explain our reasons. If a satisfactory response is not possible, we may look to escalate this further. Our escalation process would include, but is not limited to:

- Holding additional meetings with management specifically to discuss concerns.
- Intervening jointly with other institutions on particular issues.
- Submitting resolutions.
- Meet directly with management to discuss concerns.
- Disinvest if we felt that clients would be at a material disadvantage.

Engagement Examples

Case Study - Blackrock North American Income Trust (BNAIT)

The background
In February 2020, we wrote to the Chairman of BNAIT, Simon Miller, to inform him of our intention to vote against the re-election of Andrew Irvine. BNAIT had not appointed a Senior Independent Director (SID), which is in line with UK best practice. Irvine is chair of the nominations committee, so is responsible for ensuring that this appointment is made.

Our engagement
Following this letter, analysts held a call with the chairman of BNAIT, Simon Miller. He explained that the board as it stands is very competent and they had felt that investors were happy, so did not see the need to go through the expense of hiring a SID. He added that if we felt very strongly about this, they would look into hiring a SID following the meeting and make an announcement to this effect.

Outcome
On 20 March we received email confirmation that Alice Ryder had been appointed as a SID. This was also announced publicly.

Case Study - Airbus

The background

It is customary for companies in the Netherlands to submit the actions of executive and non-executive directors during the year for shareholder approval. The discharge from liabilities is binding for all shareholders and can hinder legal claims against board members. Moreover, it protects board members against claims for damages from the company.

Airbus came under fire when it submitted the actions of executive and non-executive directors during the year for shareholder approval, as it does annually. This is because on 28 January 2020, Airbus announced that it had agreed a settlement with French, British and US authorities for €3.6bn (£3bn) following investigations into allegations of bribery and corruption started in 2016. It is the largest global bribery settlement to date.

On another topic, Dutch legislation, in line with local corporate governance recommendations, contained a transitional clause regarding gender diversity pursuant to which at least one-third of board members will have to be of a different gender than the other members of the board. The clause expired on January 1, 2020. In February 2020, it was announced that a bill proposing a hard gender quota would be submitted in the following months. Pursuant to this bill, if proposed nominees do not lower the gap towards compliance, such appointments will be annulled.

Airbus had not yet met this requirement, with the proportion of the female representation on the Board of Directors at 25% at its 2020 AGM.

Our engagement

We wrote to the Chairman of Airbus, Denis Ranque, to inform him of our intention to abstain from voting for the re-election of Lord Paul Drayson and vote against the remuneration report and the ratification of the executive and non-executive director's acts at the AGM on 16 April March 2020.

We expressed our concerns that the Company failed to bring its board into compliance with the Dutch law requirement on gender diversity, despite being given seven years to comply. In addition, Airbus did not disclose any convincing explanation or plan to address the gap in board gender diversity. While we believe that the chair of the nomination committee is accountable for this failure, we note that director Martinez held this role in the past fiscal year and is not up for election. As a result, we believe we should alternatively voice our concerns through the re-election of Lord Paul Drayson, a member of the Remuneration and Nomination committee since 2017.

We also shared our concerns that ratifying the actions of executive and non-executive directors would not allow for proper oversight and accountability on previous allegations of illegal activities including bribery.

The response

Following on from our engagement with Airbus, Thorsten Fischer, the Head of Investor Relations, and Auriane de Soultrait, the Head of Governance and Stakeholder Relation, called us to discuss our concerns.

During this meeting, the management explained the rationale behind asking shareholders to ratify the actions of executive and non-executive directors, which is customary in the Netherlands. Their management confirmed that the previous management team at Airbus were duly punished for their misconduct and there had since been a complete overhaul of the board. They also explained what they had done to make sure this could not happen again, and so shareholders would be better protected in the future. They have issued a new code of conduct with practical guidance and have delivered training to all employees.

We also discussed the lack of diversity on the board at Airbus. We were explained that the company has attempted to increase representation at the board level, however this remains difficult. They have strict selection criteria, requiring expertise in the areas of finance, business and aircraft. They had found a female representative for the board with these skills, but she had taken a job elsewhere. This is an area where they are actively looking to improve.

We believed their explanations to be reasonable and that the company had addressed each of our concerns. Whist our vote was not amended in this case, we were encouraged by the way they had engaged with us and with other minority shareholders.

Principle 10

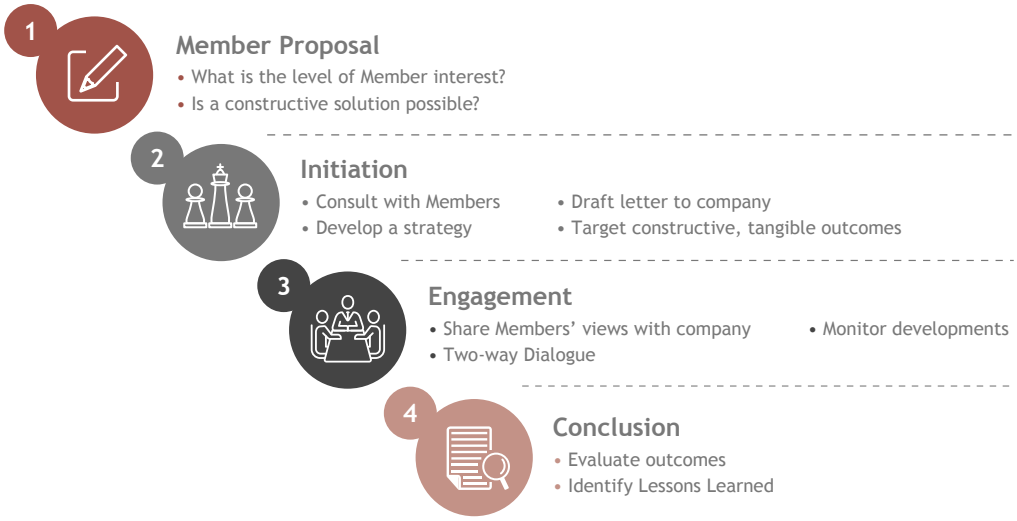
Signatories, where necessary, participate in collaborative engagement to influence issuers.

We choose to take part in larger collaborative engagements through memberships with collaborative engagement platforms such as Investor Forum and Climate Action 100 to amplify the impact we can make. Through these memberships we are able to address various ESG topics and wider themes that we consider important, as well as to learn from industry peers. We have learnt that engaging in this way has not only enabled us to better hold boards to account but also attend various engagement meetings where companies are proactive and engage before making decisions.

Investor Forum

The engagements we consider with Investor Forum are put to us after the key issues have been identified and constructive solutions have been developed. The process of engagement follows the process in the diagram below.

Engagement Process



Source: the Investor Forum

They use their Collective Engagement Framework to define their engagements. They have been involved in multiple engagements as shown below.

Engagement Participation in 2020

In each full engagement

5 to 22
Range of Participants

11% to 30%
Market Cap of Company Represented

39
Investors Involved

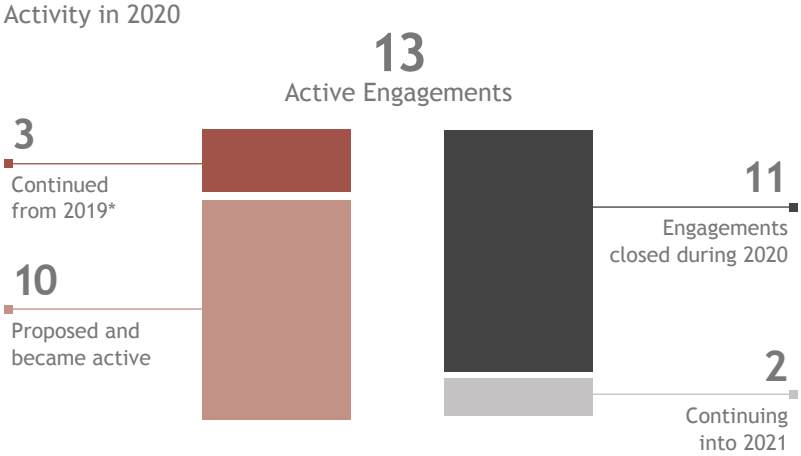
140
Bilateral Conversations Taken Place

Source: the Investor Forum

The Investor Forum have also given us the following statistics of proposed engagements over the past year.

Collective Engagement Report

Facts and Figures
Activity in 2020



*One of the cases open at the end of 2019 did not materialise into a full engagement due to a change in investor sentiment.

Source: the Investor Forum

Since becoming members of the Investor Forum, we have been involved in several collaborative engagements. The process to become involved in one of these engagements involves a check to ensure we hold the company in question and a conversation with the lead analyst to ensure it is something we believe we could add value to. The lead analyst will then work alongside the Stewardship & Responsible Investment (SRI) team throughout the engagement. They attend all meetings and report back on these engagements to both the Direct Investment Group (DIG) and the Stewardship & Responsible Investment Group (SRIG). Whilst we believe transparency is important, we ensure that feedback on these ongoing engagements is not made public in our voting and engagement reports until the engagement is completed. We also have longer in-depth analysis of these engagements in our Annual Stewardship and Responsible Investment Report.

As we have only recently become a member of the Investor Forum, we have only been part of one completed engagement. However, we have 4 ongoing engagements that we cannot discuss publicly until they have completed but they are as follows:

Sector	Theme	Status
Financials	Climate	Ongoing
Media	Governance	Ongoing
Metals & Mining	Human Rights	Ongoing
Building Products	Health & Safety	Ongoing

Completed Engagements

Case Study - Barclays

The background
We decided to become involved with this engagement as we had a large holding and felt the topic was extremely important and the best chance of achieving the desirable outcome was to collaborate.

This engagement was broken down into two phases. The first was to emphasise the long-term investors' priorities. The second phase looked at conveying how important climate concerns were and how they were a material issue for the business, and as such asked that they set clear climate ambitions and engage with ShareAction (a registered charity that promotes Responsible Investment by campaigning to improve corporate behaviour on environmental Social and governance issues).

Our engagement
This engagement involved the largest number of participants in any engagement to date. The Investor Forum wrote to the Board to express member views and then engaged extensively with the Chair in a series of constructive conversations. We were informed of all engagements and sought the opinions of our lead analyst in all areas. Investor Forum worked extensively with Barclays, ShareAction and investors to encourage ambitious climate commitments and to avoid a proxy battle.

The response
Following on from the extensive engagement Barclays outlined landmark climate ambitions ahead of the 2020 AGM and gave a commitment to provide greater granularity on its climate strategy before the end of 2020. At the AGM, two climate related resolutions were raised and while they did not agree with ShareAction's resolution which called for a "phase out of all exposure" they did commit to "transitioning" its energy exposure. The Board's recommended resolution received almost complete support while the shareholder resolution received 23.9% support of the votes cast. Following on from this in November 2020, the bank reported on actions taken since the AGM, they have issued new targets for 2024 and have also committed to further action and enhanced reporting.

We believe this was an example of a successful engagement. We will continue to monitor the situation and if necessary, engage further in the future.

Climate Action 100+

Climate Action 100 is the largest investor engagement initiative on climate change. It focuses on 160 companies with significant greenhouse gas (GHG) emissions. These companies are critical to the net-zero emissions transition and to meeting the objectives of the Paris Agreement.

Climate Action 100+ At a Glance

545 SIGNATORY INVESTORS

160 FOCUS COMPANIES IN 32 MARKETS

SIGNATORY ASSETS UNDER MANAGEMENT TOTAL **$52 TRILLION**

COMPANIES ENGAGED BY THE INITIATIVE ARE RESPONSIBLE FOR AN ESTIMATED **80%+** OF GLOBAL INDUSTRIAL EMISSIONS

INVESTOR SIGNATORIES IN **32 MARKETS**

TOTAL MARKET CAP FOR ALL FOCUS COMPANIES IS **$8.4 TRILLION**

Source: Climate Action 100

We are currently in a working group engaging with Walmart on areas such as:

- Strengthening its reporting under the TCFD rules (Taskforce for climate related financial disclosures).
- Transparency surrounding its industry associations and climate lobbying.
- Project Gigaton (which relates to its GHG emissions).
- Climate scenario analysis.

Walmart has recently announced a new target to achieve net-zero GHG emissions by 2040 (scope 1 and 2). As part of this the company will protect, manage or restore 50 million acres of land and 1 million square miles of ocean by 2030. Our engagement is ongoing, and we will report again in the future.

Focus Companies by Sector

39 OIL AND GAS COMPANIES

31 UTILITIES COMPANIES

26 TRANSPORTATION COMPANIES

23 MINING AND METALS COMPANIES

26 INDUSTRIALS COMPANIES

14 CONSUMER PRODUCTS COMPANIES

Source: Climate Action 100

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Where we have concerns about the performance or strategy of an investee company or where we have reason to believe that our clients' rights as shareholders are being compromised in any way, we will, in appropriate circumstances, escalate our involvement with investee companies. Whilst we do not believe in the micromanagement of our investee companies, in some cases we feel that it is necessary. This could include issues with board independence or remuneration. In cases such as these we would open a dialogue and write to the company or meet directly with management to express our concerns. We are willing to act collaboratively where appropriate. In cases where we deem it necessary, and where our Stewardship & Responsible Investment Group agree, we will abstain or vote against management resolutions. If a satisfactory response was not possible, we would look to escalate this further.

Our escalation process would include, but is not limited to:

- Holding additional meetings with management specifically to discuss concerns.
- Intervening jointly with other institutions on particular issues.
- Submitting resolutions.
- Disinvest if we felt that clients would be at a material disadvantage.

As explained previously, we systematically vote on all discretionary holdings held by our charity and not-for-profit clients, any situation all holdings above our materiality threshold, and all holdings in companies listed on the London Stock Exchange's Alternative Investment Market (AIM). This currently amounts to around 750 UK and international companies. This includes investment trust funds listed on the UK market to which we apply the same principles and approach.

On these companies, the stewardship team and members of the Stewardship & Responsible Investment (SRIG) committee review all resolutions for which our proxy voting provider, Glass Lewis, recommends us to vote against the management or to abstain from voting. We systematically assess these recommendations. When they are aligned with our voting policy and best serves the interest of our shareholder, we follow this advice but engage with the company so they have the opportunity to provide more information and allow us to change our vote. If we feel that the company does not offer a satisfactory answer, we then vote against or abstain. After that, we monitor if there is any progress from the company in the year up to the next AGM. A lack of progress can trigger an additional engagement according to the severity of the issue.

In cases where we are still invested in the company by their next AGM and the same questionable resolutions are put to a vote, we once again engage with the company before deciding to vote against or abstain. We inform the company that further inaction will lead us to further escalate our approach. If the company still does not provide an adequate reply, we vote against or abstain another time. We then inform the lead analyst covering the stock and he or she will follow up with the company on these issues in his or her next meeting with the company. We will then assess the answer from the company and subsequently decide what additional steps can be taken if necessary (please refer to the different actions mentioned in the list above).

In 2020, we engaged with 140 companies on their resolutions. Among these companies, we warned 7 of them that further inaction would lead to further escalation.

Whilst we recognise it may not always be possible to engage across different markets and asset classes, we would always consider joining with other shareholders to do this if necessary. We would consider engaging with foreign regulators if this were the only option available to us.

We also speak with our proxy voting advisers and ESG screening providers regularly to keep up to date on any engagements they may be driving.

Escalation in the time period was generally limited to equities as this asset class was easier to escalate in the UK, our main investment geography, and then the USA. Collaborative opportunities are greater too in these two countries, but also provide the best opportunity for a relatively small minority shareholder to exert influence. We are looking to extend collaborative engagement to other geographical regions in the future. Further examples of escalation and outcomes can be seen earlier in this document including under Principle 9 and 10.

Case Study - Jupiter US Smaller Companies

(referred to Jupiter below)

The background
Due to COVID-19, many companies held virtual annual general meeting. Jupiter proposed the adoption of new articles to permit future general meetings to be held as a physical or electronic meeting, or a combination of both.

Our engagement
We wrote to the Chairman of Jupiter, Gordon Grender, to inform him of our intention to vote against the adoption of new articles at the AGM on 22 December 2020.

We recognised the current context of the COVID-19 pandemic. However, we expressed our concerns on the potential for future general meetings to be held on a wholly virtual basis even when COVID-19 will not be an issue anymore. As a consequence, we would have appreciated for the company to provide a convincing rationale for the use of hybrid/virtual meetings or provide assurances that shareholder participation would not be affected by the format of these meetings.

The response
Following on from our letter to the Chairman of Jupiter, we received a call from him. Mr Grender explained to us that the proxy wording was imperfectly drafted and told us that it was the board's intention to return to "in person" meetings as soon as they possibly could. He mentioned that he would make clear the board's intention at the AGM.

This reassured us. However, as the resolution was not formally re-drafted, we did not change our vote and voted against the resolution.

Principle 12

Signatories actively exercise their rights and responsibilities.

The voting process focuses on all discretionary holdings held by our charity and not-for-profit clients, any situation where our materiality threshold is met, and all holdings in companies listed on the London Stock Exchange's Alternative Investment Market (AIM). This currently amounts to around 750 UK and international companies. This number will increase this year as we are integrating Tilney's assets under management (AUM), the company with which Smith & Williamson merged with in 2020.

We use our own voting policy, which was developed alongside the Glass Lewis voting policy. Much of the detail has already been discussed earlier in the document including under Principle 5. Our Voting Policy focuses on issues such as:

Leadership

Companies should have a talented board with a proven record of protecting and delivering value, where individuals have a diverse background, record of positive performance and a breadth and depth of experience. We believe in routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies.

The board will most effectively perform the oversight necessary to protect the interests of shareholders if it is significantly independent. Only independent directors should serve on a company's audit and remuneration committees.

Effectiveness

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision. The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

The Committee Chair maintains primary responsibility for the actions of his or her respective committee. There should be a clear disclosure of which director is charged with overseeing each committee.

The audit committee should act independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control. We assess audit committees based on the decisions they make with respect to their monitoring role, and the level of disclosure provided to shareholders. We believe that the committee requires a minimum of three members — or two for smaller companies.

Remuneration committees have a critical role in determining the remuneration of executives. We believe overall remuneration levels should be reflective of the company's size, relevant peer group and recent performance.

Nomination committees are responsible for ensuring that the board contains the right balance of skills, experience, independence and knowledge to effectively oversee the company on shareholders' behalf. This process includes managing the terms and disclosure of board appointments, both in initial recruitment and on an ongoing basis, with an emphasis on progressive refreshment. The committee must set out the board's policy on diversity, with specific reference to gender, including details of any internal objectives and progress against them.

Accountability

Each company should be headed by an effective board which is collectively responsible for the long-term success of the company. To achieve good governance requires continuing and high-quality effort.

The board should promote the interests of shareholders, it should consist of mostly independent directors whom should be held accountable for actions and results related to their responsibility.

The board should establish a formal and transparent process to review the company's corporate reporting, risk management and internal control principles.

A director's history is often indicative of future conduct and as such we typically vote against directors who have served on boards or as executives of companies with a track record of poor performance, over-remuneration, audit or accounting-related issues and/or other indicators of mismanagement, poor oversight or actions against the interests of shareholders.

We take note of any significant losses or write-downs on financial assets and/or structured transactions. Where we find that the company's board-level risk committee contributed to the loss through poor oversight, we would vote against such committee members on that basis.

Remuneration

We believe executive remuneration should be linked directly with the performance of the business that the executive is charged with managing. The policy should provide clear disclosure of an appropriate framework for managing executive remuneration. We expect remuneration policy to comply with best practice. When a company's executive remuneration policy deviates from these guidelines, we expect a clear and compelling rationale for why the proposed structure or practice is appropriate for the company. If the company has failed to sufficiently disclose the terms of its policy, we may vote against the proposal solely on this basis.

Remuneration should be sufficient to attract and retain proven talent but should not be excessive. We examine executive pay on a case-by-case basis. A clear, succinct, and comprehensive disclosure of the company's remuneration structure and practices is essential for shareholders to make an informed assessment. No director should be involved in deciding his or her own remuneration. In the event of significant opposition to remuneration proposals, we will assess the responsiveness of the committee to shareholder concerns.

Incentives tied to long-term performance and holding restrictions provide the strongest alignment with the interests of long-term shareholders. The majority of the incentive opportunity should generally be subject to a performance period of at least three years. A significant proportion of incentive pay-outs should be delivered in equity to promote alignment with shareholder interests. Incentive programmes should generally include specific and appropriate performance goals and a maximum award amount per employee. Remuneration committees should retain a reasonable level of discretion to ensure that pay outcomes are justified and linked to performance, and that the implementation of the remuneration policy remains appropriate.

Performance

Performance measures should be carefully selected to relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business.

We look at the performance of these individuals in their capacity as board members and executives of the company, as well as their performance in different positions at other firms. We would consider voting against an individual should they fail to attend at least 75% of board meetings. We are sceptical of directors who have a track record of poor performance.

Remuneration committees should retain a reasonable level of discretion to ensure that pay outcomes are justified and linked to performance, and that the implementation of the remuneration policy remains appropriate.

A full copy of our voting policy can be found on our website. All entities follow the same voting policies.

Smith & Williamson have great respect for the Glass Lewis policy, and where we differ tends to be in the detail rather than the broad principle. In particular Smith & Williamson is able to make use of the detailed understanding its sector analysts have of its investments which can allow a more nuanced and less rules-based approach.

In most cases, Glass Lewis vote with management. Where they recommend a vote against management, the Stewardship & Responsible Investment Group (SRIG) assess the vote and pass it to the relevant direct/ collective analyst where necessary for advice. The SRIG includes amongst others Head of Charities, Head of Investment Risk, and ESG Specialists.

Engagement with companies to improve Environmental, Social and Governance (ESG) performance of investee companies is a vital part of our responsible investment process.

Monitoring

Every night, Smith & Williamson sends the list of companies that it has voting right for to Broadridge and Broadridge sends ballots to Glass Lewis based on that process. Smith & Williamson sends the positions and Broadridge creates the ballots and sends accordingly to Glass Lewis.

Broadridge relies on Smith & Williamson to report the correct share positions, but if it is notified of an 'over-vote' or mismatch, then it queries that with Smith & Williamson and Smith & Williamson would investigate at their end. Glass Lewis monitors as part of its standard operating procedure for incoming and outgoing ballots, to ensure they are processed via the automated feed to Broadridge.

Fixed Interest

For fixed income assets we have found that the instruments we invest in and the size of our investments has limited our ability to influence terms and conditions in contracts. We are not shown terms prior to issue and deal though secondary markets. We are constantly looking for ways to improve and develop our processes which our Fixed Income Group are monitoring at their regular meetings.

Stock Lending

We don't lend stock as we do not see this activity as being consistent with our fiduciary duties and we do not have the regualtory permissions to do so.

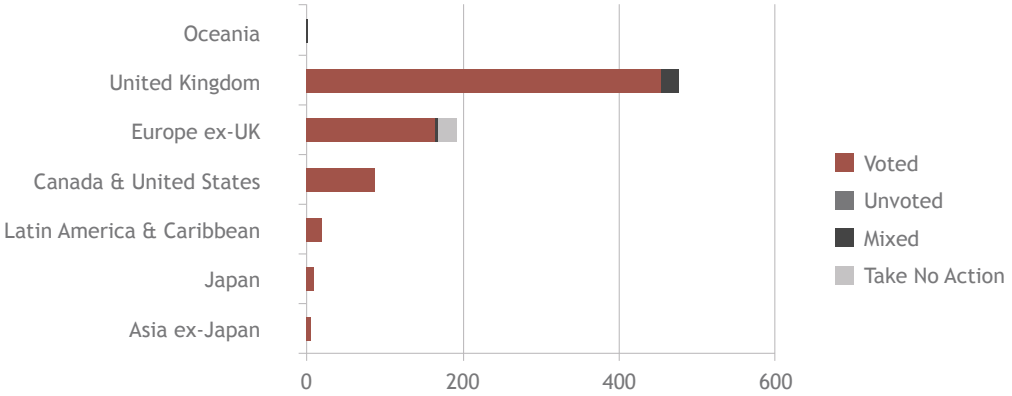
This is our voting record in 2020 with case studies (Smith & Williamson).

10,496 resolutions

500 company engagement meetings

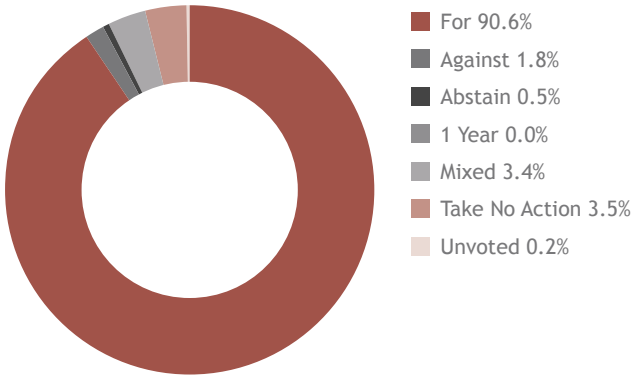
644 AGMs

Meetings by Region & Vote Status

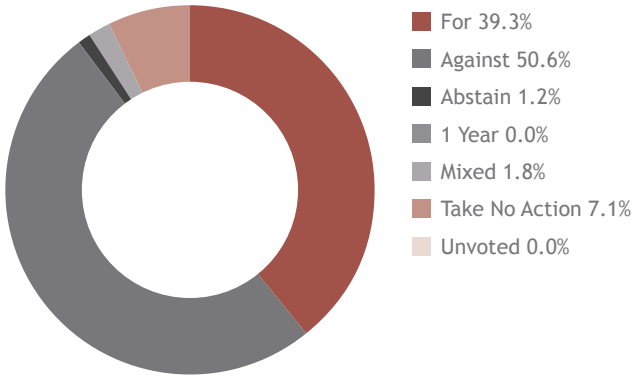


Source: Glass Lewis

Management Proposals - Votes Cast



Shareholder Proposals - Votes Cast



Source: Glass Lewis

On nearly 100 occasions our view differed from that of Glass Lewis, mainly on board related issues. Our in-house sector specialists conduct in-depth research by holding over 500 meetings with companies' management each year. We believe that our specialist knowledge can put us in a superior position, especially when it comes to AIM, investment trusts and UK stocks and therefore we are better placed to make decisions.

Votes vs Management

Proposal Category Type	With Management	Against Management	Take No Action	Unvoted	N/A	Mixed	Total
Audit/Financials	1,792	23	55	4	0	72	1,946
Board Related	4,119	95	186	7	4	134	4,545
Capital Management	1,774	27	22	4	0	78	1,905
Changes to Company Statutes	478	12	18	1	0	21	530
Compensation	1,036	61	57	1	0	41	1,196
M&A	34	2	0	0	0	0	36
Meeting Administration	37	3	25	0	0	0	65
Other	98	3	1	0	0	3	105
SHP: Compensation	18	2	0	0	0	0	20
SHP: Environment	10	4	6	0	1	2	23
SHP: Governance	30	40	6	0	0	1	77
SHP: Social	26	22	0	0	0	0	48
Totals	9,452	294	376	17	5	352	10,496

Source: Glass Lewis

Voting in action

Pearson Plc

We decided to vote against the remuneration policy of the newly appointed CEO. We recognise that some discretion may be required to attract and motivate a new CEO, but we had reservations over the aggregate size and the vagueness and non-demanding performance conditions used to decide the final pay out.

Ceres Power Holdings Plc

We abstained from voting for the appointment of the auditor and the authority to set fees. While we note that the company has a track record of disclosing the fees paid to its auditor, it did not for the most recently completed fiscal year. As such, we were unable to assess the remuneration paid to the auditor in the past fiscal year.

Victoria Plc

Our proxy voting service provider had concerns over the general authority to make market repurchases of shares and advised to vote against this resolution. We noted that the terms of the proposed repurchase exceeded the conventional limit. However, we assessed that in the unlikely event that the company would repurchase shares up to the maximum permitted, it would be likely to be generally beneficial to other shareholders. As such, we decided to vote in line with the board.

Exxon Mobil

We backed a shareholder proposal requesting additional disclosure concerning climate change-related risks. There has been concerns over the rising risks of accidental chemical releases from petrochemical facilities in the Gulf Coast of the United States due to extreme weather events, which have become more frequent and severe as a result of climate change. This proposal was meant to enable investors to better understand the public health risks associated with these facilities.

Johnson & Johnson

We voted in favour of a shareholder proposal asking for a comprehensive report on the company's response to the opioid epidemic. Opioid abuse is a public health crisis in the US. The company had offered to pay $4 billion to settle over 2,000 lawsuits by state and local governments claiming that the company's marketing of opioid drugs, as well as its sale of opioid active ingredients to other drug makers, contributed to the opioid crisis. The aim of this proposal was to allow shareholders to better apprehend how the company is managing and mitigating risks associated with its role in the crisis.

Chevron Corp.

We backed a shareholder proposal requesting disclosure concerning lobbying activity alignment with the Paris Agreement's goal of limiting average global warming to well below two degrees Celsius. There has been increased scrutiny over corporate lobbying activities that are inconsistent with meeting the goals of the Paris Agreement and the risks presented by any misaligned lobbying and the companies' public plans. Corporate lobbying activities that are not aligned with the Paris Agreement present regulatory, reputational, and legal risks to investors, as well as presenting systemic risks to economies. The shareholder proposal was meant to mitigate against these risks at Chevron and provide shareholders with assurance that company funds were being spent in a manner that made progress its stated objectives.

Facebook Inc

We voted in favour of a shareholder proposal asking the company to assess the risk of increased sexual exploitation of children as Facebook develops and offers additional privacy tools, such as end-to-end encryption. Child sexual exploitation online (or Child Sexual Abuse Material (CSAM)) is an escalating threat to children worldwide, exacerbated by the growth in social media platforms and children increasingly accessing the internet and mobile applications. The company's plans to expand end-to-end encryption will make it unable to track CSAM on social media, enabling more offenders to evade detection. The goal of this proposal was to allow shareholders to better apprehend how the company is managing these risks as it grows its encrypted messaging services.

JPMorgan Chase & Co.

We voted for a shareholder proposal asking the company to issue a report outlining if and how it intends to reduce the GHG emissions associated with its lending activities in alignment with the Paris Agreement's goal of limiting global temperature rise to well below two degrees Celsius. Banks are coming under increased scrutiny over their financing and investing in companies with significant emissions. This shareholder proposal was to enable shareholders to better understand how the company is monitoring and managing the risks associated with its lending activities.

Contact

If you would like to find out more about our stewardship and responsible investment activities, please look at our website

https://smithandwilliamson.com/en/stewardship-responsible-investment/

or contact our Stewardship & Responsible Investment team.

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