

# The UK Stewardship Code



# Smith & Williamson and the UK Stewardship Code

The UK Stewardship Code is published by the Financial Reporting Council (“FRC”). It sets the standards for investors for monitoring and engaging with the companies they own and aims to improve the quality of dialogue between investors and companies to help improve the long term risk adjusted returns to shareholders. It sets out areas of good practice to which the FRC believes institutional investors should aspire and aims to make investors more accountable to their clients and beneficiaries.

Smith & Williamson Investment Management (S&W) are committed long term responsible investors and good stewards of our clients’ assets and as such believe that it is important to commit to the UK Stewardship Code.

## 1

### Principle

#### Publicly disclose their policy on how they will discharge their stewardship responsibilities.

At S&W we are committed to generating superior returns for our clients by investing in companies that will create long-term value for stakeholders. We actively seek to include environmental, social and corporate governance (ESG) factors, along with voting and engagement, in our investment process which in turn can influence the prospects and financial performance of our clients’ investments, therefore playing a key part in our responsibility to stakeholders, society and our clients.

As a responsible investor and member of the United Nations Principles of Responsible Investment (UN PRI), S&W are committed to ensuring that we monitor and engage with investee companies on behalf of our clients. By agreeing to comply with the Stewardship Code we are actively committing to improve the transparency of our reporting with the aim of enhancing and protecting the value for our clients.

Oversight of this process is led by our Investment Process Committee. We use MSCI, an external company, for all Environmental Social & Governance (ESG) and ethical screening services. ESG factors are incorporated into our fundamental research process for direct investments as these can have a significant impact on the long term valuations.

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 S&W 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.

<https://smithandwilliamson.com/media/8544/proxy-voting-summary-report-dec-20.pdf>



## 2

### Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

#### Principle

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.

S&W is not subject to any conflicts arising from its ownership structure. The only substantial shareholder of the group is AGF Management Ltd, a Canadian investment management firm which owns 30%, with the rest owned by current and retired staff and their families. No third party product provider or supplier has a material shareholding or financial interest in the S&W (or vice versa) such as to be able to influence S&W's operating decisions to the detriment of client interests.

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.

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 S&W group, which could restrict dealing, from reaching our Investment Managers.
- *Carrying out transactions in Investments as agent not as principal* - Except to correct dealing errors and in derivatives dealt on a matched principal basis where that is market practice, we normally carry out transactions in Investments as agent for the client.
- 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.

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# 3

## Principle

### Monitor their investee companies.

Our investment process is an assessment of global economic strategy and outlook, monthly asset allocation process, security selection and portfolio construction.

We receive a great deal of information and macro-guidance from our in house team of strategists and analysts. Their portfolio construction guidance is disseminated through daily morning meetings which keep managers informed of market, sector and stock developments, and weekly investment meetings which are dedicated to key messages and themes.

#### Sector specialist equity research

Over 50 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. This work is complemented by our geographic specialists.

#### Fund research

Collectives analysts cover around 480 funds across 16 sectors currently, 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 Stewardship Code policy and their UN PRI submissions where applicable.

The asset allocation process and the in-house research efforts provide investment managers with the tools to put together bespoke portfolios which match each individual client's needs and keep the portfolio within

the risk boundaries agreed at the outset.

The client is our primary focus and their risk profile (risk tolerance and capacity for loss), restrictions (ethical or asset class), time horizon and other constraints are considered in conjunction with income and return requirements when structuring a portfolio.

S&W use the expertise of MSCI to help meet the ethical and ESG needs of our clients.

As noted, we incorporate ESG factors in our fundamental research. We also offer clients the option of positive/negative screening as well as a best in class investment options. We believe that by monitoring the ESG impact of a company as part of our investment decision process we are making better investment decisions while managing the impact of the business upon the environment and society now and for the future.

On occasion S&W may be willing to become an Insider. Contact in the first instance should be made to [lucy.aylott@smithandwilliamson.com](mailto:lucy.aylott@smithandwilliamson.com). Detailed policies and procedures are in place to ensure the appropriate handling of Inside Information; in particular it is not permitted for investment managers to be contacted directly with inside information.

# 4

## Principle

### Establish clear guidelines on when and how they will escalate their stewardship activities.

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. In some circumstances we would be willing to act collaboratively. In cases where we deem it necessary, and where our Stewardship and 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;
- Meet directly with management to discuss concerns;
- Disinvest if we felt that clients would be at a material disadvantage.

A full copy of how we have voted and which companies we have engaged with is available on [our website](#).

# 5

## Principle

### Be willing to act collectively with other investors where appropriate.

Our long term investment policy and rigorous research process mean that it should rarely be necessary for such collective action to be taken. This is because quality of management is a key fundamental factor when choosing suitable investments. However, S&W understands that at times collaboration with other investors may be the most effective way to engage. We are open to working alongside other organisations; all instances will be judged on a case by case basis.

Through our membership of the UN PRI, we are part of the Collaborative Engagement Platform. This provides us with a private forum to pool resources, share information, enhance influence and engage with companies, policymakers and other actors in the investment value chain on ESG issues across asset classes, sectors and regions.

We are also members of relevant trade associations: UK Finance, the Investment Association, PIMFA and TISA.

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Please contact [nicola.mitford-slade@smithandwilliamson.com](mailto:nicola.mitford-slade@smithandwilliamson.com) for further information.

## 6

### Have a clear policy on voting and disclosure of voting activity.

#### Principle

The voting process focuses on all holdings held by our charity and not-for-profit clients and any situation where we hold more than 1% of the issued share capital. This currently amounts to around 700 UK and international companies.

We use Glass Lewis' policy to provide voting research which we incorporate into our own policy. Glass Lewis' policy focuses on: transparency and communications; corporate culture; strategy; financial disciplines, structure and management; stakeholders, environmental and social issues; and governance. The policy is influenced by what is considered to be best practice in each country taking into account local guidelines and governance codes.

S&W have great respect for the Glass Lewis policy, where we differ tends to be in the detail rather than the broad principle. In particular S&W 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 (GL) 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, ESG.

## 7

### Report periodically on their stewardship and voting activities.

#### Principle

In keeping with our commitment to the Stewardship Code, we aim to be mindful and transparent in our voting. S&W keep a record of all engagement and voting activity which is updated quarterly and available on our website (<https://smithandwilliamson.com/media/8544/proxy-voting-summary-report-dec-20.pdf>), together with detailed notes where we have voted against management. In the event of voting against management we write to them explaining our reasons as quickly as possible to allow time for additional information to be exchanged and an opportunity to change our vote where appropriate.

Our proxy voting process is one of our internal controls that are currently audited as part of our AAF 01/06 yearly review which looks at the control environment and control objectives in respect of the investment and custody services provided. This is prepared in accordance with the International Standard on Assurance Engagements (ISAE 3402).

Additional information is available upon request to clients should they wish to see how we have voted on any shares that they specifically hold.

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Capital at risk. The value of investments and the income from them can go down as well as up. The investor may not receive back in total the original amount invested.

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