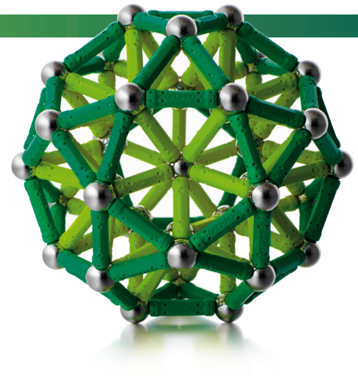
# MERIAN GLOBAL INVESTORS: UK STEWARDSHIP CODE




FREDDIE **WOOLFE**

**HEAD OF RESPONSIBLE INVESTMENT AND STEWARDSHIP**


Merian Global Investors regards stewardship as an opportunity designed to improve and protect its clients' interests and, by implication, investment returns.

Apart from seeking to provide clients with the investment outcomes they require to meet their financial aspirations, effective stewardship can also enhance the performance of companies - ultimately to the benefit of the wider economy.

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

We recognise the UK Stewardship Code, (the "Code") as best practice and have structured this note according to its principles. The Financial Reporting Council oversees the code which aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. This statement of compliance is required by the Financial Conduct Authority in the UK and sets out how we comply by reference to the principles in the Code.Our stewardship approach is also consistent with our commitment to the United Nations-supported Principles of Responsible Investment.

## STEWARDSHIP POLICY

### STEWARDSHIP CODE PRINCIPLE 1:

"Institutional Investors should publicly disclose their policy on how they will discharge their stewardship responsibilities."

The aim of our stewardship activity is to protect and enhance our clients' interests and the value of their investments. The stewardship approach taken varies, depending on investment style and size of holding as described below.

### INVESTMENT STYLES

Merian Global Investors provides a range of investment products drawing on various investment styles and investment instruments which affect our stewardship approach. The investment styles employed include (but may not be limited to):

- Long-term long-only equity funds where we build and maintain material shareholdings. For these funds we view stewardship as a core part of our activity and typically consider using the full range of powers available to shareholders in order to increase and/or protect the value of investments.
- Alternatives including hedge funds, where securities may be held for only a short period of time. These funds may use a range of financial instruments including 'short' positions using derivatives in the expectation that the share price will fall. In such cases, it is often impractical and unconscionable to exercise the full range of powers as shareholders, including voting.

### MATERIAL HOLDINGS

Exercising stewardship takes a variety of forms and the size of holdings affects the most appropriate method. At its simplest, this may be exercising proxy votes for companies in which we invest. However, where we have material positions held over a longer time horizon, stewardship may extend to fostering a relationship with companies that allow engagement, debate, and constructive challenge and, if necessary, encouraging change at the company. We focus this in-depth stewardship activity where we have material shareholdings, and, as such, greatest influence. For example, a 5% holding in a FTSE 100 company enables us to engage comprehensively with a company. By contrast, a 0.1% holding in a small company provides no material influence and little ability to engage or encourage change. The specific thresholds around which we make voting and engagement decisions will vary according to the percentage of share capital we control, the particular issue under consideration and the size of the company. We take the view that where the percentage share capital of a company is small, so accordingly the materiality of that holding to the company and therefore the persuasive effect of our holding will be limited.

Occasionally there may be times where the holding we control is very small but a matter of principle justifies engagement with a company or collaboration with other investors.

### A MATTER OF PRINCIPLE?

We engaged recently with a large company. The percentage shareholding we controlled was under 0.1% and therefore, seemingly, at a level which would not normally indicate a level to commence discussions with a company. However, prior to the AGM, we identified that the board had only one female director of a board of nine; it appeared the chair did not wish to change the board further; yet, the chief executive reported the company's target to increase women senior managers from 12% to 20% by 2020. Given the disparity in ambition, we therefore contacted other shareholders and organised a meeting with the company's chair. We were informed the company is shortly to appoint a further woman director - engagement continued until the appointment was confirmed.

Since our discretionary equity business has historically been UK biased, our stewardship activities are naturally concentrated in the UK. However, as our equities business expands across other geographies, we will take the opportunity to review, and update, our practices to implement effective stewardship in those markets, where we have material holdings.
We concentrate our stewardship activities on equities because that is where investors can be most effective. In extreme cases equity investors have the ability to replace company management. The scope for other asset classes - debt investors, for example - to influence a company on stewardship issues, taking account of the very limited occasions on which a debt instrument holder will ever vote, is generally limited to a decision to buy, sell or hold the debt instrument at a particular price level.

## CONFLICTS OF INTEREST

### STEWARDSHIP CODE PRINCIPLE 2:

"Investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed."

It is possible that actual or perceived conflicts of interest may arise in relation to the execution of our stewardship activity. In these cases, our voting service provider will seek to apply our policy directly. Where this is not possible we will follow the recommendations of the service provider. We will be transparent and disclose the conflict, as well as the reasons for the vote. Our stewardship obligations remain however, and we must engage on the material issues as we identify them. Examples of possible conflicts include:

- Where we are a shareholder in a company and also in a commercial relationship with that company, for example as a client, supplier or other counterparty. This clearly provides a potential conflict of interest and in these cases, our conflict policy will apply. In defining the potential conflicts, any institutional investor or financial services company is potentially a client or supplier and therefore, will be deemed to be an organisation where the conflicts policy will apply.
- Conflicts could occur between clients and where this is the case we must continue to act in the best interests of each client. Thus, for example, the equity share interests of different clients may be voted differently at the same meeting where it is in the interests of each to do so.
- Some of the funds under our control will short equity shares. In the best interests of our clients we have rules in place to prevent or manage conflict of interests between ourselves and clients, as well as between clients arising from shorting activity.

## MONITORING AND ESCALATION

### STEWARDSHIP CODE PRINCIPLE 3:

"Institutional investors should monitor their investee companies."

It is a core part of our work to monitor investments. Partly, this is to assess whether to add to, maintain or sell the holding. We will also monitor investments for the purpose of protecting against a loss of investment value and ideally to assist companies in improving their value and returns.

Our monitoring includes, but is not limited to, an on-going assessment of companies' financial and operational performance, the quality and credibility of strategy, the markets and economies in which companies operate, the effectiveness of a company's leadership, financial sustainability, the quality of a company's reporting and governance processes, including environmental and social issues (particularly those that are or may be material to the value of the company); the ethical behaviour of the company and membership of the leadership team. (This includes an expectation that companies will move swiftly to achieve and exceed the aspirations set out by the UK 30% Club[2].) We also consider compliance with the UK Corporate Governance Code and where companies do not comply with the Code, will consider explanation for non-compliance on the merits and circumstances of each case.

Areas of particular interest include company strategy, the management of the portfolio of the assets of a company, continuing operational success, executive pay and, increasingly, the steps a company is taking regarding environmental management and the impact of climate change.

The information published by companies, particularly financial statements and reports and accounts are important sources of information to assist in monitoring investments but we also use other sources including third party environmental, social and governance research, financial research and information we obtain during the course of engagement with a company. The desired outcome of monitoring activity is to reduce risk and/or obtain greater long-term success for the company and therefore for our clients. Thus, achieving change and avoiding risks are factors we take into account in reviewing holdings and the success of our activity.

In the course of our monitoring and engagement with company management we are willing to become insiders if justified in the circumstances: it is our practice that the fund managers responsible for the relevant shareholding will determine if we can be taken inside, in accordance with our control framework. We cannot agree to be taken inside without a clear deadline for insider status ending: it is not in the interests of our clients to be inside for an indefinite term.

### STEWARDSHIP CODE PRINCIPLE 4:

"Institutional investors establish clear guidelines on when and how they will escalate their stewardship activities."

The topics on which we will engage with companies include any of the issues which are monitored under principle 3, above – but that list is not exclusive. Anything that might affect value, or risk, may be the subject of engagement with company representatives – including senior executives and non-executive board members, or its advisers.

Stewardship is overseen by the head of UK stewardship and governance, who works closely with fund managers and analysts on issues of stewardship. Regular engagement with companies arises from the one-to-one meetings with company executives often following company results announcements. These meetings permit fund managers to assess the valuation of companies but are also used to question companies on strategy, governance, performance and financial management. We also have meetings with chairs of companies in which we have material percentage shareholdings at which we may discuss any issue relating to the business but usually this includes discussion on the company's strategy, operations and the board. Other directors seen regularly are the chairs of remuneration committees because companies often consult shareholders prior to shareholder general meetings in order to ensure shareholder support for pay policy.

### DISCUSSIONS WITH COMPANIES RECENTLY HAVE INCLUDED:

- Succession planning and membership of the board
- Testing and challenging a proposed acquisition
- The use and retention of cash by companies
- Regular communication with chairs with an aim to allow us and the chairs to understand viewpoints, and engender communication and trust

Where possible it is our preference to support the management of companies in which we have holdings. We will therefore evaluate the actions and strategies of companies constructively. However, where there is a threat to the value of the company, we will take steps to protect the value of our clients' investments. Such action may include the following interventions, although may not necessarily occur in the following sequence:

- Engaging with company (executive) management (e.g. by letter, meeting)
- Engaging with members of the company board
- Discussing or working with other shareholders on matters of mutual interest
- Discussing the matter with company advisers
- Voting contrary to the management proposals at general meetings
- Selling the holding where we evaluate it is in the interests of our clients to do so
- In extreme circumstances, we could requisition a general meeting

If we do not sell a holding, but remain concerned regarding some aspect of governance, strategy or operations, and we are unable to reach an understanding with a company, we may vote against particular, related resolutions at a shareholder meeting and may continue to do so in future years if an issue remains unresolved.  However, voting against management remains an unsatisfactory outcome, particularly where subjects may have been discussed before, or prior, to a vote.

It is preferable that all discussions with companies should take place confidentially. While we see there is some merit in greater transparency generally, the sensitivity of discussions regarding, for example, a company's future justifies discretion. Further, the willingness of a board to accept the need to change some aspect of its management of the company may hinge on the communications remaining confidential.

## SHAREHOLDERS WORKING COLLECTIVELY

### STEWARDSHIP CODE PRINCIPLE 5:

"Institutional investors should be willing to act collectively with other investors where appropriate."

Working collaboratively with other investors can increase the level of influence over companies and it may therefore be desirable to encourage them to address shareholder concerns. Together our staff have decades of experience of working with other shareholders on stewardship issues and are willing to discuss issues of mutual concern regarding companies. The decision to work collaboratively is taken on a case by case basis but in all such conversations, care is required to avoid inadvertently creating concert parties or inadvertently providing inside information.

We are members of several formal or informal groups which may facilitate collaboration with other investors, including:

- UK Investor Forum
- UK Corporate Governance Forum
- The UK Investment Association
- The Institutional Investors Group on Climate Change
- Investor Group of the 30% Club
- UN-supported Principles for Responsible Investment

Contact regarding collaborative engagement from institutional investments should be made to the head of responsible investment and stewardship, Merian Global Investors, at stewardship@merian.com

## TRANSPARENCY AND DISCLOSURE

### STEWARDSHIP CODE PRINCIPLE 6:

"Institutional investors should have a clear policy on voting and disclosure of voting activity"

Our voting policy: contained within our accountability expectations document, sets out how we typically vote in different circumstances and is in line with the UK Corporate Governance Code. Our policy provides that in the UK, we anticipate voting at all meetings. We also intend to vote in all other markets unless we deem it is impractical or the cost of doing so will disadvantage our clients.

Typically, where we have material shareholdings, voting decisions will be reviewed and decided by our in-house team. Conversely, where we have small holdings relative to the overall share capital of a company, we will typically use a third party voting specialist, Glass Lewis, to implement our policy and arrange for voting instructions to be dispatched to the relevant company. The thresholds around which we make voting decisions will vary according to the percentage of share capital we control, the particular issue under consideration and the size of the company.

Where we have a material holding in a company – that is, where the percentage shareholding is such that it facilitates meaningful engagement – we will contact a company if we vote against or abstain on a resolution unless the matter has already been subject to discussion previously.

We currently do not lend stock but in the event we did, our voting policy provides that, generally, we would not recall stock simply to exercise the vote unless the holding is material, the issue is important and there is the prospect of our vote affecting the overall vote outcome.

We publish our voting policy, and our voting activity reports online at our responsible investment home page. When implementing our voting policy, it is our hope that we will be able to support proposals put forward by the companies in which we invest, as we have actively chosen to invest in and support those management teams. However, as responsible stewards we seek to promote high standards of corporate

[2] http://30percentclub.org/

governance and where companies do not meet those standards we may vote against management to encourage improvement. If the issues in question have already been discussed with a company and there are clear signs of improvement, we may vote in support of company management in order to recognise good faith and progress demonstrated by the company, even though there remains scope for further improvement. Inevitably, it is in these cases that we are likely to continue to engage with the company to promote continued improvement.

The issues which most frequently cause us to vote against management include the composition of boards (particularly regarding the degree of independence on a board), capital management (protecting pre-emption rights, for example) and executive remuneration (directors being paid without a sufficient link to performance, or simply being paid too much).

The resolutions on which we vote against or abstain may be seen in the record of our voting at company general meetings, available at our responsible investment home page

### MULTIPLE DIRECTORSHIPS?

Our voting policy requires directors to have adequate time to fulfil their duties. As a guide, a director serving on more than five boards may cause us to vote against their re-election or nomination due to concerns that they would not have time to fulfil the roles fully, particularly if any of those appointments are as chair of a company. However, on occasion we may vote for directors where they are on more than five boards, where they demonstrate an ability to manage the workload and taking account of the nature and size of companies where they are directors.

## STEWARDSHIP CODE PRINCIPLE 7:

"Institutional investors should report periodically on their stewardship and voting activities."

We are committed to being open and transparent with respect to our stewardship activity. As such we publish quarterly voting activity reports, on a lagged basis, available in the three months after the quarter end. The reports are in a standard format, available to both clients and public, detailing how we voted each resolution and include explanatory notes where we have voted against management proposals.

We also publish engagement reports online three times a year which illustrate the nature and scale of our engagement. We may choose to remove company identification if we feel it could damage relationships and/or jeopardise our ability to influence companies in future. Undertaking potentially sensitive engagement in public can lead to defensive reaction and entrench views of company management, and therefore we often will prefer confidential, constructive dialogue which enables a trust based relationship, permitting clear and occasionally frank communication and challenge.

Past and present voting and stewardship reports can be found at our responsible investment home page

### ASSURANCE

The Stewardship Code states that companies signing up to the code should obtain an independent opinion on their engagement and voting processes. We rely on our internal audit function to carry out assurance of stewardship processes, and will review the need for external assurance in future.

In 2016 an internal audit of our stewardship activity was performed with a particular focus on engagement and voting processes including in the context the Code. An internal audit of our stewardship activity has subsequently been undertaken periodically, with the need for and benefit of an external audit being considered at least annually.

This statement is reviewed annually and updated as necessary.

Updated: 28 September 2018

## ONLINE

Download fund data
and read investment updates at
**www.merian.com**

## TELEPHONE

Contact your regional sales manager or
speak to our dedicated client services
team on **+44 (0)20 7332 7524**

## MERIAN GLOBAL INVESTORS (UK) LTD

2 Lambeth Hill, London, UK, EC4P 4WR

The art and science of investing™

**Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The performance data does not take account the commissions and costs incurred on the issue and redemption of shares. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rate changes may cause the value of overseas investments to rise or fall.**