



**HIGHCLERE**  
INTERNATIONAL INVESTORS

**UK Stewardship Code Compliance Statement**

**Last updated: June 2019**

The UK Stewardship Code (the “Code”) was established by the Financial Reporting Council (“FRC”) in 2010 and updated in 2012. This voluntary Code aims to enhance the quality of engagement between institutional investors and companies with the aim of improving long-term shareholder returns and encouraging enhanced corporate governance among companies listed on UK and overseas stock exchanges. This document describes Highclere’s interpretation and application of the seven principles of the Code, which is overseen and published by the FRC.

Highclere is not a signatory to the Code. We are happy however to set out below our responses to the seven principles detailed in the Code and to explain how these are currently integrated into the investment process.

The revised EU Shareholder Rights Directive (“SRD”) is recently enacted legislation. It aims to promote effective stewardship and long term investment decision making. Highclere is currently considering its response to SRD, including determining whether or not to publish an “engagement policy”.

**Principle 1**

**“Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities”**

At Highclere, we take our stewardship responsibilities very seriously indeed and strive to set standards well above the norm of our industry peers. We are a boutique investment manager, focused on investing in small and mid-sized companies across a variety of countries and sectors worldwide and, in the normal course of our business, we encounter huge variations in the standards of disclosure and corporate governance among listed companies worldwide. Our policies are formed around our own high standards, rather than accepting local norms.

We believe that by purchasing shares in a company on behalf of our clients, we are effectively voting in favour of the existing business practices and standards of disclosure and corporate governance of that company. As a result, we strive to engage with management and produce high quality, documented research on the companies we are considering as portfolio investments. This minimises the risk of disagreement on governance standards once we have become investors. Unfortunately, there will be occasions where we shall disagree with management policies or actions which arise after we become investors, in which case we are prepared to actively engage with management on these issues, including the use of proxy votes. If change is not forthcoming and the issues are material, we are prepared to sell the shares we own on behalf of our clients and replace them with other ideas.

In our experience, smaller companies tend to face fewer issues surrounding environmental, community and social responsibility than larger companies. In contrast, due to variable local regulatory requirements and the inability to police a myriad of small companies, we find that corporate governance abuse is much more frequent among smaller companies than their larger counterparts. As a result, our fiduciary responsibility is particularly active in this field, and companies tend to be treated as guilty until proven innocent. Our Environmental, Social and Corporate Governance (ESCG) Policy is available



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upon request from [clientservice@highclereinvestors.com](mailto:clientservice@highclereinvestors.com). Our investment process revolves around the search for high quality companies for our portfolios and we believe that a high quality company will apply the highest standards to all aspects of its business.



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Our Proxy Voting Policy is available upon request from [clientservice@highclereinvestors.com](mailto:clientservice@highclereinvestors.com). In summary, we aim to actively consider and vote on each item proposed at the Annual General Meetings ("AGMs"), Ordinary General Meetings ("OGMs") or Extraordinary General Meetings ("EGMs") of our companies. We divide the issues into standard and material. Standard issues may include items of a routine nature such as the presentation of financial statements to shareholders, approval of financial statements by shareholders, approval of routine executive compensation or incentive plans, election of directors and approval of directors' fees, election of auditors and approval of audit fees, and declaration of dividends. Material issues may include items that relate to corporate governance matters; changes in a company's country of incorporation; mergers and other corporate restructurings; anti-takeover provisions such as staggered boards, poison pills, or supermajority provisions; changes to capital structures; material stock option, management compensation or incentive plan issues; and social, corporate and environmental responsibility considerations. The Investment Managers determine whether issues are standard or material. If material issues are included in the meeting, at least two of Highclere's portfolio managers will discuss the issues, assess the potential impact on the portfolio company and the value of the underlying investment, and decide on how to vote the proxy in question.

Clients invested in a Fund may receive a quarterly summary of proxies voted or not voted, issues raised at meetings held by portfolio companies, or additional information on Highclere's policies and procedures by contacting [clientservice@highclereinvestors.com](mailto:clientservice@highclereinvestors.com) and asking to be included on the quarterly proxy voting distribution list.

### Principle 2

**“Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed”**

Highclere recognises the importance of identifying potential material conflicts across the business and has developed suitable systems and controls to identify and mitigate their impact. As a boutique independent investment management firm, without any banking or corporate broking relationships, we believe that the potential for conflicts is low. Highclere maintains a documented Conflicts Policy, which is disclosed in Highclere's Form ADV Part 2 for the SEC. A copy of this policy is available upon request from [clientservice@highclereinvestors.com](mailto:clientservice@highclereinvestors.com).

### Principle 3

**“Institutional investors should monitor their investee companies”**

We believe that by purchasing shares in a company on behalf of our clients, we are effectively voting in favour of the existing business practices and standards of disclosure and corporate governance of that company. As a result, we strive to engage with management and produce high quality, documented research on the companies we are considering as portfolio investments. This minimises the risk of disagreement on governance standards once we have become investors. We frequently monitor and document the progress of the companies in our portfolios, including the use of third party brokerage research and a third party proxy voting research institution. Unfortunately, there will be occasions where we shall disagree with management policies or actions which arise after we become investors, in which case we are prepared to actively engage with management on these issues, including the use of proxy votes. If change is not forthcoming and the issues are material, we are prepared to sell the shares



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we own on behalf of our clients and replace them with other ideas. All proxy voting activity is recorded internally.

**Principle 4**

**“Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value”**

Highclere takes an active approach to communicating its views to companies where it believes there are issues that will impact shareholder value. We prefer to build effective relationships with the management and boards of these companies in private discussions, but we must stress that while we are “active” investors, we are not “activist”. In our universe of small companies, many are controlled by large corporate or family entities and we recognise our position as a minority investor.

**Principle 5**

**“Institutional investors should be willing to act collectively with other investors where appropriate”**

Should occasion arise, Highclere may find it preferable to work with other shareholders of an investee company to effect change. Before entering into collaborative engagement initiatives, Highclere will take into account potential conflicts of interest and the regulatory implications of its actions. We are supporters of the UNPRI (United Nations Principles for Responsible Investing) and to that end actively engage with other investment professionals and with client bodies in furthering the cause of corporate stewardship.

**Principle 6**

**“Institutional investors should have a clear policy on voting and disclosure of voting activity”**

Highclere has documented its Proxy Voting Policy and included a summary of it under Principle 1 above. Clients can request a quarterly summary of proxies voted. Highclere does not disclose this information to non-clients.

**Principle 7**

**“Institutional investors should report periodically on their stewardship and voting activities”**

Highclere’s clients can request a quarterly summary of proxies voted and issues raised at meetings of investee companies. Highclere does not disclose this information to non-clients.