

HARGREAVEHALE

INDIVIDUAL ■ INTELLIGENT ■ INVESTMENT

## Stewardship Code

JULY 2015

## The UK Stewardship Code

The UK Stewardship Code, published in 2010 and revised in 2012, sets the benchmark in the UK for institutional investors to meet ownership obligations in respect of their holdings of UK equities. The aims are to enhance the quality of engagement between institutional investors and companies, to help improve long term returns to shareholders, and the efficient exercise of governance responsibilities, by setting out good practice on engagement with investee companies to which institutional investors should aspire.

The UK Stewardship Code is overseen and published by the Financial Reporting Council, the independent regulator overseeing financial reporting, accounting and auditing and corporate governance.

## Hargreave Hale

Hargreave Hale is authorised and regulated by the Financial Conduct Authority (FCA) and is appointed as the Investment Advisor for seven Marlborough Fund Managers funds and manages two Venture Capital Trusts (VCTs) as well as providing investment management and stockbroking services to other mainly retail clients. It will be in respect of the duties as Investment Advisor for the Marlborough funds and two Venture Capital Trusts that Hargreave Hale will comply with the UK Stewardship Code. Due to Hargreave Hale managing these funds alongside other client's investments, conflicts of interest may arise.

The fund management team meet on a weekly basis to discuss companies they have visited over the week, sharing views on potential new investee companies and existing companies held. The primary reason for these meetings is to assist in the efficient management of the funds, but where appropriate information on companies is available to the other investment advisers within Hargreave Hale.

It is an integral part of Hargreave Hale's investment process to monitor the company's ability to create and sustain value for funds and for clients. Through this process Hargreave Hale will challenge companies regarding factors that they perceive may affect their value.

The UK Stewardship Code comprises of seven principles. Below are details of how Hargreave Hale recognises and complies with each principle.

**Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

Hargreave Hale is committed to complying with the UK Stewardship Code for the investment management duties it carries out for the Marlborough funds and Venture Capital Trusts. Hargreave Hale publicly discloses its policy on The UK Stewardship Code on the company website.

**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.**

Hargreave Hale has a Conflicts of Interest Policy, this is publicly disclosed on the company website. The policy is applicable to all staff, outlining how conflicts of interest are managed. The policy identifies areas where potential conflicts may arise, and gives details of how Hargreave Hale will deal with such conflicts and how employees will report potential conflicts internally.

Hargreave Hale's Conflicts of Interest Policy aims to ensure that no conflicts arise when complying with The UK Stewardship Code, especially when the Investment Committee is producing internal reports on investee companies, with a recommendation and record of meeting with the investee company. These reports are only for internal use and may be restricted to members of the Hargreave Hale Investment Committee due to the sensitivity of the information contained, in order to comply with Hargreave Hale's Conflicts of Interest Policy.

From time to time Hargreave Hale may be notified at an early stage when investee companies are contemplating major strategic or corporate initiatives, and therefore maybe in receipt of price sensitive information. Hargreave Hale is able to manage such information due to the Conflicts of Interest Policy that it has in place, and the internal structure and requirements for managing receipt of such information.

Hargreave Hale acts in the interest of all its investors when considering matters such as engagement and voting.

**Principle 3: Institutional Investors should monitor their investee companies.**

Hargreave Hale may have regular engagement with investee companies' management to discuss results, events and performance or other specific issues, and informal dialogues such as site visits and research are also undertaken.

The Investment Committee will review financial statements, stock market releases, current market prices and other research material and will consider if a company's board and structure is effective. This monitoring process aims to identify problems at an early stage to minimise loss of value and loss of shareholder value.

Hargreave Hale's action will be based on a case by case basis when concerns are flagged through its internal monitoring of an investee company. Hargreave Hale may sell out of an investee company if concerns are raised, but will treat each on a case by case basis.

**Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

Hargreave Hale will escalate its activities should it have concerns regarding an Investee Company. This may include, but is not limited to, a company's strategy, performance, and/or its governance, views that differ to that of the management, and if a company fails to achieve Hargreave Hale's reasonable expectations for shareholder returns. These are some of the reasons that may prompt Hargreave Hale to escalate their engagement. Hargreave Hale may hold extra meetings with company management to raise their concerns.

At times, should Hargreave Hale's views differ to that of the management of the investee company and the investee company fails to achieve reasonable expectations for shareholders return, Hargreave Hale's action will be based on a case by case basis.

Hargreave Hale may look at all options before deciding to sell out of the investee company, on occasions, and should Hargreave Hale deem it to be beneficial will notify the investee company of differing views on their strategies and governance of their business.

**Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.**

Hargreave Hale does not have a standing agreement to collectively engage with other investors. Hargreave Hale manages other shareholders investments outside of the Marlborough funds and Venture Capital Trusts, and this may cause conflicts of interest by collectively engaging with other investors.

**Principle 6: Institutional Investors should have a clear policy on voting and disclosure of voting activity.**

Hargreave Hale's policy on voting is that, Hargreave Hale will look at each individual voting opportunity and will form a decision on a case by case basis. It is Hargreave Hale's policy to not automatically support the board of an investee company, should its Investment Committee flag concerns. It is Hargreave Hale's policy to act in the best interest of the investments managed.

It is not Hargreave Hale's normal policy to attend General Meetings and vote in person, but as explained above each case is assessed separately and should the need arise to attend and vote, should this be advantageous to the value of the fund and shareholder's value, then Hargreave Hale will act accordingly. Should the size criteria be exceptionally large and advantageous to the investment and shareholder value then Hargreave Hale may vote should this action be most beneficial.

When investee companies are in bid situations, either being taken over or looking to take over another company, Hargreave Hale is sometimes asked to sign an irrevocable undertaking. Each of these requests is considered on a case by case basis. Such undertakings are only assigned where it is felt to be in the best interests of the shareholdings in the investee company. Hargreave Hale's normal practice is to restrict such undertakings to the shares held by the Marlborough funds and Venture Capital Trusts which for this purpose are usually treated separately from other client shareholdings in the investee company.

**Principle 7: Institutional investors should report periodically on their stewardship and voting activities.**

The Investment Committee will produce internal reports to inform of engagement with investee companies, this is done as regularly as these engagements arise or concerns are flagged.