

# Stewardship Statement

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October 2016

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## About us

Rathbone Unit Trust Management is a leading UK fund manager. We are an active management house, offering a range of equity and bond unit trusts and a multi-asset portfolio (consisting of four sub-funds) to meet your capital growth and income requirements.

We are an active management house, specialising in investment management for the retail investor and segregated institutional accounts. All of our unit trusts qualify for inclusion in ISAs (Individual Savings Accounts) which can receive lump sums.

Rathbone Unit Trust Management Limited is a wholly-owned, London-based subsidiary of Rathbone Brothers plc. In 1995 and 1996 respectively, Rathbone Brothers acquired stockbrokers Laurence Keen and Neilson Cobbold, securing many private wealth managers, and their clients. The company also acquired unit trusts from Laurence Keen Unit Trust Management including the Rathbone Income Fund – the success of which led to a rebranding of the operation in 1999 to Rathbone Unit Trust Management Limited.

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## Our policy on Stewardship

We fully support the principles of the UK Stewardship Code (the Code), which was introduced by, and is overseen by, the Financial Reporting Council in July 2010, and its subsequent revisions. We believe that we have an important role in being active owners, so as to protect and enhance the value that accrues to the ultimate beneficiary through our investment decisions.

We manage a range of funds within each of our two main investment services (unit trusts and multi-asset portfolios). We invest in companies on behalf of our clients, taking a medium-to-longer term view of their quality.

Our approach to stewardship is supported by significant resource, namely: Rathbone Brothers' Corporate Governance Committee (a committee of senior investment professionals from across Rathbone Investment Management and Rathbone Unit Trust Management); a Manager of Corporate Governance; and the services of an independent corporate governance specialist who advise and execute on our proxy voting activities.

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## How we manage conflicts of interest

### Introduction

We are fully aware of our overarching duty to act in the best interests of the underlying investors, in our range of collective investment schemes, when proxy voting or engaging with companies in which we invest.

However situations arise where the interests of management, fund managers and clients may be misaligned. In such circumstances we apply the principles of our Conflicts of Interest Policy.

Asset management businesses such as Rathbone Unit Trust Management are required, as part of their regulatory obligations, to identify potential and actual conflicts of interest which may arise during the course of undertaking regulated or ancillary activities, and have systems and procedures in place to manage or resolve such conflicts. We owe a fiduciary duty to our clients to ensure that conflicts are managed and where possible resolved in order to avoid any detriment.

Conflicts of interest are and will remain a key focus for the regulator, in Rathbone Unit Trust Management's case, the Financial Conduct Authority (FCA). Principle 8 of the FCA's handbook states:

*"A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client."*

The full regulatory obligations are contained in section 10 of the FCA Senior Management Arrangements, Systems and Controls sourcebook.

We are further required to prepare, maintain and implement a written policy covering the business activities of Rathbone Unit Trust Management, which will be made available on the Rathbone Unit Trust Management website.

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## How we manage conflicts of interest *(continued)*

### What is a conflict of interest?

A conflict of interest arises when:

- The firm's interest or the interests of its managers, employees or any person directly or indirectly linked to it by control, conflict with the duty it owes to our clients; or
- The duties the firm owes to one client conflict with the duties it owes to another client in the course of providing regulated activities

Steps have been taken to identify conflicts of interest across the activities undertaken by Rathbone Unit Trust Management, and these, along with the processes and procedures to control and mitigate are reviewed on a six monthly basis by the Rathbone Unit Trust Management board by way of a report produced by the Rathbone Unit Trust Management Compliance Officer. This will include the provision of management information (MI) to support the current status of each conflict where appropriate.

### Personal obligations

Rathbone Unit Trust Management requires all staff to understand and adhere to the requirements of the conflicts of interest policy. Personal integrity and vigilance is essential in recognising conflicts that may be either at a personal level or in respect of the activities undertaken for our business. Staff are expected to exercise the highest standards of integrity and ethical business conduct to ensure the fair treatment of clients. All staff are required to avoid any situation in which their personal interests conflict with Rathbone Unit Trust Management's fiduciary duty to its clients. Staff are required to report any potential conflicts that they have identified, or that could arise in the first instance to the Rathbone Unit Trust Management Compliance Officer.

To ensure that staff understand their responsibilities, training in conflicts of interest is provided to all new joiners, and an annual attestation of the current policy, its contents, and attachments is required of all staff.

### Disclosure

If a situation should arise where Rathbone Unit Trust Management's arrangements to manage its conflicts are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of clients will be prevented, then Rathbone Unit Trust Management will be required to disclose the general nature and the sources of the conflicts of interest to investors. The disclosure will be made in a durable medium and will include sufficient detail in order for the client to take an informed decision in respect of the service in the context of which the conflict arises.

### Types of conflicts

Potential conflicts of interests currently exist in the following areas:

- Provision of research to Rathbone Investment Management managers by Rathbone Unit Trust Management fund managers and analysts
- Investment in Rathbone Unit Trust Management funds by Rathbone Investment Management managers, where primacy could be seen to be given to the stewardship concerns of Rathbone Investment Management managers over other shareholders
- Use of commission to buy research by Rathbone Unit Trust Management fund managers
- Personal account dealing
- Provision and receipt of gifts and benefits (contained in a separate policy)
- Management of bespoke Rathbone Unit Trust Management funds as well as discretionary accounts
- Management of external funds by Rathbone Unit Trust Management managers
- Terms of business with platforms, supermarkets and other groups with whom we do business
- Competing needs between Rathbone Investment Management and or Rathbone Unit Trust Management holders of debt and equity in the same company

Additionally, in respect of payment of commission to brokers for the provision of research, a separate Rathbone Unit Trust Management committee meets to review this on a quarterly basis.

### Resolution

Where such conflicts occur and are deemed not to be managed sufficiently by the procedures detailed in our policy, then Rathbone Unit Trust Management will be required to disclose the general nature and the sources of the conflicts of interest to investors. The disclosure will be made in a durable medium and will include sufficient detail in order for the client to take an informed decision in respect of the service in the context of which the conflict arises. With regard to proxy voting, the Chief Investment Officer has final authority to decide on competition potential courses of action.

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## How we manage conflicts of interest *(continued)*

### **Resolution *(continued)***

Our parent company has a clear policy on restricting dealing whilst in possession of price sensitive information and a procedure is in place regarding the manner in which Rathbone Unit Trust Management employees are able to declare themselves insiders. With regard to governance and stewardship issues we recognise that in seeking to satisfy concerns raised, a company may request that we become insiders in order to resolve the issue. Given our closer exposure to private client investment management as part of our parent group, it is our preference for staff not to become insiders. However, where becoming an insider would further the best interests of clients, we have a clear policy and procedure in place to facilitate this.

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## How we monitor investee companies

Our core approach to investment involves an assessment of management. Prior to investment, various aspects of governance are considered in the general due diligence process.

Following investment, holdings are subject to regular suitability reviews as part of the normal investment process. This is overseen by the work of our various investment committees. Further, as we undertake to execute our proxy vote at all holdings, the annual general meeting cycle provides an annual review of governance arrangements at all equity stocks held. In addition to procuring financial data from Factset, we subscribe to ESG risk information from MSCI and governance risk information from ISS. Data from these sources are integrated into the investment management process.

Further, we are supported by the work of the Rathbone Brothers internal research function which provides a clear framework for the oversight of recommended lists and investment models. Linked to the work of several targeted investment committees, this ensures a further degree of investment oversight. Our approach to engagement is similarly integrated across the group. Where we share significant exposure to a particular stock, we endeavour to coordinate engagement across Rathbone Investment Management and Rathbone Unit Trust Management.

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## Our approach to Engagement

Engagement is broadly defined as the dialogue entered into with investee companies regarding matters of performance or strategy across a wide range of issues in order to incentivise improved behaviours.

When seeking investment opportunities, we look for companies which are well managed, and whose senior management and board have a clear understanding of the requirements of longer-term investors. We expect there to be evidence of high standards of corporate governance and behaviour, and our engagement with management and proxy voting is intended to reinforce this expectation.

We take a view on the strengths and behaviours of the management team before investment takes place. Normally an investment director within the group seeks to meet a company's senior management team before committing money to the company's shares. We accept this may not always be possible for FTSE 100 index companies.

However, there remain circumstances in which company performance falls short of expected standards of corporate governance best practice. In such situations, the needs of our client base will drive us to pursue an active engagement with the company or companies in question. This approach recognises that companies operate in varied environments, and that there is no 'one size fits all' model for corporate governance. Whilst we expect companies to meet basic governance standards such as those outlined in the UK Corporate Governance Code, we accept that there may be situations within individual companies where adherence to the Code may not be in the best interests of stakeholders. In such instances, we look for an adequate explanation of the rationale for deviation from best practice.

Our approach to engagement is summarised in our engagement policy the important features of which are summarised below:

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## Our stance

As owners of the companies in which we invest on behalf of our unit holders, we undertake dialogue with companies on the issues most pertinent to their long term success. This may include general issues of strategy, performance and risk, but also capital structure. However, we may also focus on issues such as culture and remuneration from time to time as the situation demands.

In doing so we recognise that such engagements often present themselves across a spectrum of severity. Further, we are limited by resources in our capability to performance in depth engagements.

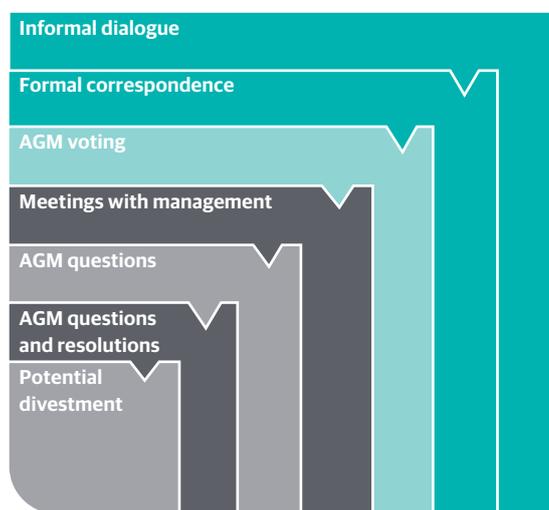
## Our stance *(continued)*

In order to maximise the effect of our engagements and deliver on our responsibilities to clients, we must be selective and pragmatic. Whilst the specific approach taken to engagement will be decided on an ad hoc, case by case basis as determined by the manager, the following principles guide the selection of an issue for more active engagement:

1. **Exposure:** Across our portfolios we may hold stakes in smaller companies which, whilst small in terms of value, may be significant in terms of the proportion of voting rights. We are more likely to engage directly where we hold a material stake in the company, defined as holding in excess of 5% of a company's share capital.
2. **Severity:** We are more likely to engage issues as identified which present an immediate or severe threat to the best interests of our clients.
3. **Location:** We are more likely to engage in those companies where we have a deeper understanding of the local legal framework.

### Escalation

Whilst we reserve the right to respond as appropriate determined by the circumstances, our general approach to engagement is outlined by the graphic below. This indicates our adoption of the 'comply or explain' framework and our general principle of working through informal channels to seek explanations in the first instance, transitioning to more formal company law methods such as formal annual general meeting resolutions where such dialogue proves ineffective, with potential divestment as the final option should informal dialogue not deliver the required outcomes. Escalation may be driven by additional factors including time sensitivity and the availability of alternative courses of action.



### Escalation – process and principles

We will tend to escalate our engagement where we have concerns about strategy, financial performance or weak corporate governance. Examples of escalation issues of particular concern to Rathbone Unit Trust Management include (but are not limited to) the following areas:

- Lack of board independence
- Misalignment of shareholder and management interests in executive remuneration arrangements
- Poor management of stakeholder relationships
- Issuance of share capital to the detriment of long term holders
- Questionable mergers or acquisitions

### Engagement example

A practical example of our engagement is provided below:

- We inherited shares in Company X when we took over the administration of a fund. We made sure we met with management as soon as possible
- Company X consistently delivered performance which disappointed market expectations. It was the opinion of our managers that the company gave forward looking guidance to markets which was overly optimistic. This continued despite consistent feedback on this point
- We then developed concerns over the company's strategy, as a result of inconsistent messaging in meetings and seemingly poor due diligence with regard to an acquisition. We voiced our concerns directly to management and to the company broker

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## Our stance *(continued)*

### Engagement example *(continued)*

- Further corporate governance concerns arose as an industry veteran began to build a stake in the company with an intention to procure a seat on company X's board
- A meeting was organised with a non-executive director to discuss these issues. This meeting was very disappointing, and we were not convinced that the board had skills to address the problems facing the company
- We took things further and requested a conference call with the Chairman. This was also a very poor meeting, with management being overly defensive. At this stage we considered that all reasonable steps had been taken to raise our concerns, and that given the scale of the issue at hand, the best option for our clients was to sell our stake in the company

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## Acting in collaboration

Where appropriate, in line with our conflicts of interest policy and engagement policy, we will seek to engage on a collaborative basis. We recognise that in some situations our concerns will align directly with those of other shareholders, and that the best interest of clients may be served by seeking to act in collaboration. However, our overarching aim is to act in the best interests of clients, and this takes precedence over collaborative action.

Our Parent company is a signatory to the UN Principles for Responsible Investment, and through this we benefit from access to the Platform for Collaborative Engagement. Through this avenue and also through use of the Investor Forum we will seek collaborative support for engagements in which we have taken a lead.

In recent years our Parent company has been listed as one of the top twenty most active members of the PRI Clearinghouse (now called the Collaboration Platform). We have volunteered staff time to serve on the steering groups of the following priority PRI engagements:

- Bribery and Corruption
- Hydraulic Fracturing
- Directors' Nominations
- Tax transparency

If you wish to contact us about engagement issues generally or specifically regarding collaborative opportunities, please email [engagement@rathbones.com](mailto:engagement@rathbones.com).

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## Our approach to proxy voting

Proxy voting is a vital element of investor stewardship, and one which we take seriously, having recently committed extra resource to the function. Exercising proxy votes is a fundamental aspect of responsible ownership, especially given recent changes which empower shareholders or core stewardship issues such as executive remuneration.

Mindful of Section 6 of the Stewardship Code, we have, since 2015, adopted the policy of voting on all shares held. Having previously adopted a policy of exercising our proxy votes in companies in which we control 2% or more of the voting rights, this represents a significant step forward in our Stewardship activities.

In addition, our policy is to apply UK best practice in corporate governance through our voting, and not simply to support management as a default. This is achieved by applying a UK best practice voting template executed and maintained by our independent governance specialists, with each recommendation reviewed by a team of investment professionals.

Our main responsibility is to the unitholders in our funds; consequently, we may decide to vote other than in accordance with the specialist's recommendations. Where we have been recommended to consider voting against the wishes of management, an alert is raised well in advance of the meeting date. The issue is then debated in detail with the investment manager nominated to cover the company in question, and a final consideration of voting intention taken. When this occurs we will document fully the reasons for our decision. These records will be retained and will be available, upon request, to investors and the Trustees of our funds.

Where we decide that an abstention or vote against management is necessary, the final voting decision is communicated to the company. Escalation of the issue beyond this is dealt with by the engagement policy referenced above. We track votes against management as matter of course, in addition to tracking all outstanding engagements. We regularly review engagements for progress against our engagement objectives, in accordance with our policy.

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## Stock lending

We are not involved in any stock lending activities, and hence have no need for a procedure regarding the exercise of proxy voting rights over such assets.

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## Monitoring and assurance

Our engagement and voting processes are not subject to external assurance reports. However, all our activities are monitored by internal compliance team and scrutinised by our parent company's group internal audit function. We regard these controls as being proportionate for a firm of our size. We are fully aware of our overarching duty to act in the best interests of the underlying investors, in our range of collective investment schemes, when proxy voting or engaging with companies in which we invest. Our Executive Committee must manage any conflicts of interest and reports to, and is accountable to, our board.

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## Transparency & Reporting

A full and detailed record of our voting activity is maintained by our proxy voting agent. This is regularly reviewed internally by our governance specialists as a means of tracking the progress of engagements.

Our full voting record is available on request for clients only. There are many reasons why we have chosen this limited disclosure, mostly relating to the nature of our business model and our relationship with our parent company, Rathbone Brothers Plc. We consider that issuing detailed voting reports without context could lead to misunderstanding of our stance and position on an issue. Whilst the rationale for holding a stock within Rathbone Unit Trust Management will be reasonably consistent between funds, this is not necessarily the case within the wider private client investment management business. On occasion the business units may take different stances on corporate governance issues, which is entirely appropriate given the primary of meeting client investment needs in different circumstances and in different asset classes. Further, stocks may be held by Rathbone Unit Trust Management which are not held, or even actively excluded, by Rathbone Investment Management managers. Listing our voting in detail could risk a sense of confusion regarding these different holdings, should the raw data be presented without this important context.

However, we are committed to reporting on our governance and stewardship activities. In addition to a detailed voting summary being made publicly available in the long form annual report and accounts and the viability of our relevant policies on the Rathbone Unit Trust Management website, we aim to provide an annual update on our Stewardship activities. This review will include a consideration of voting metrics for the past year. This will include (but will not be limited to);

- A presentation of the volume of votes cast against management as a proportion of all votes cast;
- A detailed analysis of the categories of issues where we cast our votes against management in the past year
- An analysis of the votes abstained in the year

The full year voting outcomes will be formally reviewed by senior fund managers on an annual basis.

Further, as a group we report annually to the PRI on our collaborative engagement activities under this organisation. A copy of our latest PRI Transparency Report can be found here:

<https://www.unpri.org/organisation/rathbone-brothers-plc-144328>