

# STONEHAGE FLEMING STEWARDSHIP REPORT

2022



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# A MESSAGE FROM CEO CHRIS MERRY

I am delighted to present our first Annual Stewardship Report.



In November 2018, we published The Four Pillars of Capital. This research document was based on work we did across our client base to understand their views on capital deployment. Over 75% of our respondents acknowledged a preference for responsible investment in its broadest sense, but only 21% were actively incorporating a values-based approach in their investment portfolios. This analysis served as an important catalyst.

“While stewardship was ingrained in our business, we needed to do more to formalise our approach and set clear, measurable, and identifiable goals.”

While stewardship was ingrained in our business (moral courage has been a core value for many years), we needed to do more to formalise our approach and set clear, measurable, and identifiable goals. Similarly, while stewardship was embedded in our investment due diligence processes, more was required of us to serve the expectations of our clients, our employees, and the wider community.

Since then, we have taken several steps to improve and develop our business. We launched our first offering focused on sustainable investments. We significantly increased engagement in the governance of the companies in which we directly invest and undertook extensive education on ESG related issues internally within the firm and with our clients. We have stated our intent and commitment through our adoption of the Principles of the Stewardship Code and through affiliation with industry bodies including UNPRI and Women in Finance.

In this, our first Stewardship Report, I am proud to showcase the important work being done in the business as a whole and within the investment teams.

Our local ESG Committees in each of our major jurisdictions are driving engagement within the communities in which we operate. In addition, the establishment of a Diversity & Inclusion Committee (chaired by myself) with specific and timed development goals is actively changing attitudes and the make-up of our firm.

Within the investment team, the rigour we have consistently demonstrated with respect to due diligence is being expanded and enhanced to incorporate stewardship and ESG related principles in a tangible and meaningful way.

Although we have made considerable progress in a relatively short period there is much yet to be done. We will continue to improve and build on what we have accomplished, and, as you will see within the report, there is work on our ‘to do’ list for the coming year.

I hope this important document will demonstrate to all our stakeholders that we understand the importance of Stewardship and are implementing the Code with enthusiasm. We have had a team of senior professionals working hard to articulate in this report how the Stewardship principles are embedded in the operational and investment processes of the business, with final review and approval resting with me as Group CEO and with Graham Wainer as CEO Investment Management.

**CHRIS MERRY**  
CEO

# A MESSAGE FROM GRAHAM WAINER CEO INVESTMENT MANAGEMENT

The pace of development of regulation, communication and education has been and will continue to be appropriately intense.



I am proud to be presenting Stonehage Fleming Investment Management UK's (SFIM UK) Stewardship Report alongside our CEO, Chris Merry.

In preparing and reviewing our Stewardship Report, I was drawn to again reflect on our purpose as investors:

We help families manage and protect their wealth  
now and for future generations.

The intergenerational nature of this purpose has resulted in our investment culture having a deep-seated sense of responsibility. Investment decisions made today need to consider future generations, and it is impossible to separate those decisions from the many societal issues we face.

Therefore, when it comes to reporting on stewardship, recognition of its importance was already well integrated into our approach and, I see daily evidence of this across our two complementary but distinct investment management teams.

We refer in this document to 'internal expertise' - our team of in-house expert stock selectors. Our flagship direct equity strategy has been managed by Gerrit Smit for the past thirteen years and seeks out high quality corporations with sustainable growth prospects. Recently, we have added to our offering by acquiring a highly successful UK AIM and Opportunities team as part of a broader family investment office.

We also provide our clients with exposure to significant investment expertise outside our firm. We construct multi-asset portfolios on behalf of our clients, and we have a team of third-party manager selectors. We have termed this our 'external expertise.'

Included in the 'external expertise' are our dedicated sustainable investment strategies.

As highlighted by Chris, the work we undertook to understand our client's needs and requirements prompted us to more meaningfully address the disconnect between client values and capital deployment. Therefore, two years ago, we launched our Global Sustainable Portfolios for those clients who want a high-impact, focused approach to socially responsible investment. While the Sustainable Portfolios focus exclusively in this area, many identified best industry practices have been adopted into our other strategies to the benefit of all our clients.

Our investment teams, irrespective of whether they are selecting specific equities or selecting third-party managers, share a commitment to identifying excellence and integrity. As long-term providers of capital we can and do influence outcomes, and we are highly cognisant of our responsibilities in this regard. As evidenced by the examples in this document, we seek actively to engage in various ways to generate positive outcomes

We have come a long way in formalising our approach to Stewardship and moving it from being an established part of our culture to a defined and measurable set of targets and objectives. However, as Chris acknowledged, we are by no means at a place where we can say every aspect of our approach to Stewardship is fully formed and final. We are learning, improving, and developing all the time.

We look forward to providing this report annually and demonstrating our ongoing commitment to the Stewardship principles.

**GRAHAM WAINER**  
CEO INVESTMENT MANAGEMENT

**MONA SHAH,**  
HEAD OF SUSTAINABLE  
INVESTMENT

Many of our clients want their values reflected in their investment allocations, but often, they are held back because defining a consistent set of values to target is difficult. In addition, identifying legitimate investment offerings in a nascent industry with many untested or unproven providers is challenging.

We were confident that by applying our usual analytic rigour, we could formulate an offering that would have tangible, positive impact.

We wanted this impact to be measurable and transparent to our clients so we could clearly answer the question 'What is the impact of each £1m of investment?'

This meant we needed to go beyond headline metrics and controversy scores and get a far deeper understanding of our capital deployment.

We also want to reward companies that are making actual improvements, not merely those where the optics appear good.

I am proud of the extensive and considered work that has enabled us to answer that critical question as well as the accountability it instils - both for us and for our underlying managers.

There is always more work to be done and we will be continuing to look at mechanisms to improve the granularity of our reporting.

This year, we will also be furthering our work with City Hive on ACT (Action, Challenge, Transparency) which is working to ensure that companies in the investment industry live by their standards.

# INTRODUCTION STONEHAGE FLEMING INVESTMENT MANAGEMENT

## An overview of our SFIM UK business

Stonehage Fleming is adviser to many of the world’s leading families and wealth creators. We manage and protect their wealth, often across several geographies and generations. Most of our clients are successful entrepreneurs and business owners who have created or continue to accumulate significant wealth. Our clients look to us to assist with the successful transition of substantial wealth from one generation to the next.

Stonehage Fleming Investment Management UK (SFIM UK) is a Private Limited company wholly owned by the Stonehage Fleming Family & Partners Group. The Group is some 50% owned by those working in the business; this aligns our interests with those we serve. Our largest external shareholder is the Caledonia Investment Trust, a listed, “patient capital” investment vehicle itself significantly owned by a family.

This independent ownership structure means we are genuinely in a position to put the client at the centre of everything we do, and our time horizons are long term reflecting the multi-generational profile and objectives of the families we are privileged to support. Our business is explicitly service-orientated rather than product-led.

We are a global investment manager, constructing high conviction portfolios to preserve and grow wealth in real terms across generations. We manage £14.1bn<sup>1</sup> in assets.

Many of our clients invest with us on a multi-asset basis and harness our portfolio construction, external manager selection capability, and in-house direct equity expertise.

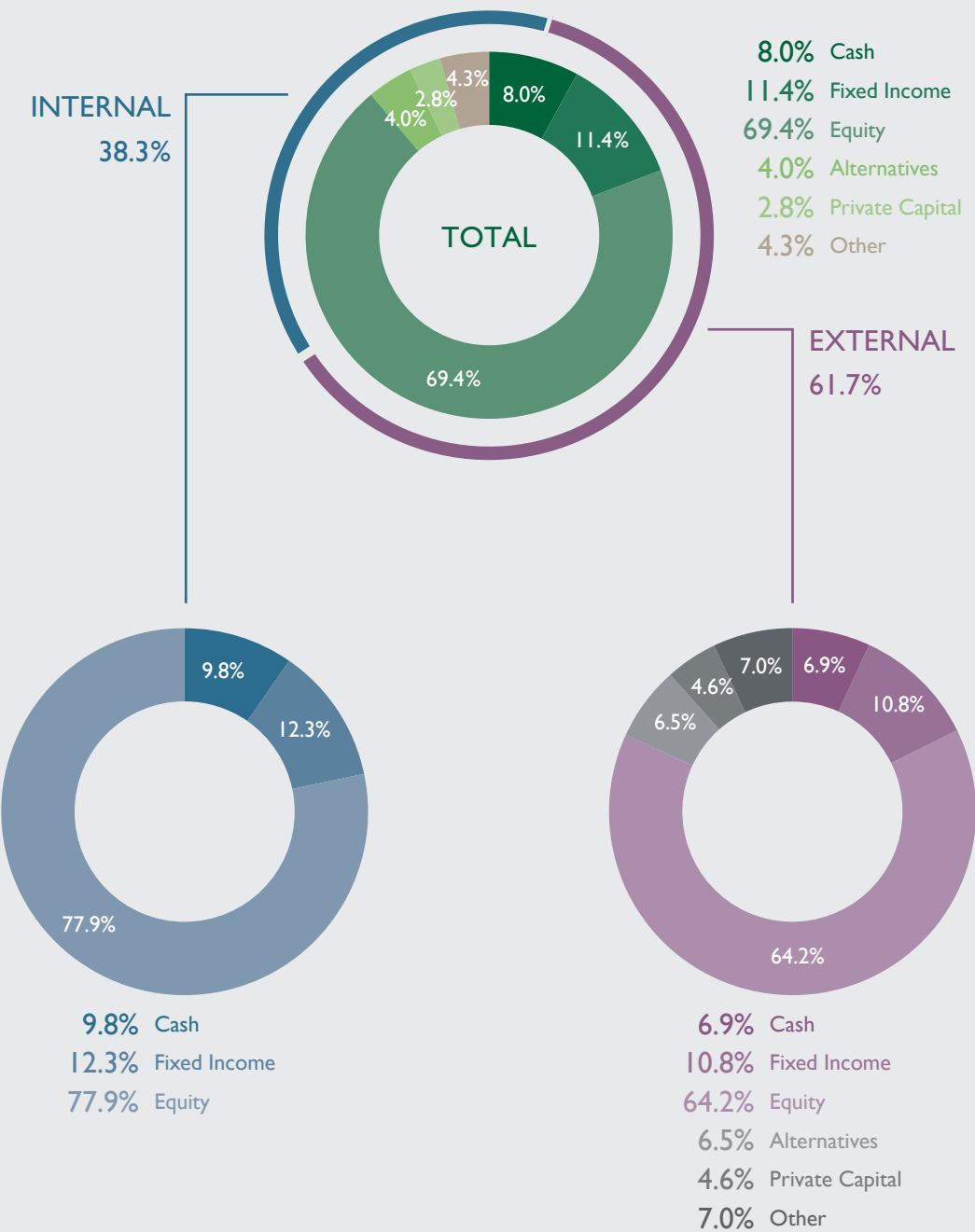
Clients also come to us to utilise only our direct equity selection capabilities and have other broadly based portfolios managed elsewhere.

We, therefore, find it helpful to distinguish between our ‘external expertise’ and ‘internal expertise’. External expertise refers to assets held with a set of carefully vetted third-party asset managers. Internal expertise refers to our in-house security selection capabilities.

The Principles of good stewardship are universal. Still, in some instances, we need to draw distinctions between stock selectors and manager selectors, and the asset split below serves as a guide to the overall asset base and nature of those assets.

1. Source: Stonehage Fleming Investment Management, 31 December 2021

## ASSETS UNDER MANAGEMENT



Source: Stonehage Fleming Investment Management, 31 December 2021.  
Includes Fund data and SFIM UK client holdings, some estimates used on advisory assets.

INTRODUCTION

INTERNAL EXPERTISE (38.3% ASSETS)

Global Best Ideas Strategy Direct Equity Team (24.6% assets)	<p>Our flagship internal equity offering is the Global Best Ideas Strategy. The Direct Equity Team’s philosophy is to invest in high-quality, growth companies where they perceive a robust competitive advantage enabling those companies to sustain growth for the long term.</p> <p>They manage a fund called TM Stonehage Fleming Global Best Ideas Fund (GBI) and manage capital in the fund as well as in segregated accounts that follow the same methodology and approach.</p> <p>The direct equity information in this document will predominantly focus on this team and strategy, given the size of assets managed and the ongoing integration of other equity offerings (described below).</p>
Direct Cash and Fixed Income (8.4% assets)	<p>The majority of our fixed income capital sits with specialist third-party investment managers. However, we have established a fixed-income team that invests in direct bonds to meet the objectives of specific clients. These are typically from high-quality issuers with maturities up to the ten-year horizon. Similar to the equity selection, the emphasis is on high-quality names where we have confidence that company management will deliver on their objectives. This category also includes cash and government bonds held in client portfolios.</p>
Additional Equity Offerings (5.3% assets)	<p>Following the acquisition of Cavendish Asset Management, we now manage three additional funds. They are a small component of our total AUM, and we are in the process of integrating them into our Global Equity Management team, where we will share best-practice, management approach and resources.</p>

EXTERNAL EXPERTISE (61.7% ASSETS)

We manage multi-asset portfolios with cash, fixed income, alternatives, equity, and private capital allocations. A core competency is the selection of third-party investment talent, which we use to populate these mandates. There are no shortcuts to identifying the very best managers, and we pride ourselves on the rigour of our due diligence.

We select external talent across the multi-asset spectrum and seek out managers who share our values and approach to stewardship. We have also expanded our multi-asset offering to include dedicated sustainable investment mandates. In establishing these mandates, we have sought to incorporate many of the same principles into our broader manager selection processes.

**Sustainable Mandates (1.4% assets)**

Our sustainable mandates allocate capital to managers with a definition of sustainable investing similar to our own.

We define sustainable investing as the intersection between good risk-adjusted returns and positive outcomes.

In practice, this means that the mandate invests in companies aligned to the 17 Sustainable Development Goals defined by the United Nations, and it aims to outperform a relevant broad market index.

Both of these objectives can be met; we do not see them as mutually exclusive.

Whilst this proposition represents a small percentage of overall assets, it has been a key growth area since its launch in 2019. Our clients are increasingly interested in expressing their values through their investment portfolios, and we have developed a proposition to help them achieve their investment return and impact objectives.



# PRINCIPLE I: PURPOSE, INVESTMENT BELIEFS, STRATEGY AND CULTURE

Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment, and society.



PURPOSE	INVESTMENT BELIEFS	STRATEGY	CULTURE
<p>Our purpose is to preserve the real wealth of the clients we serve across multiple generations.</p> <p>As stewards of intergenerational wealth, we have always had an extended time horizon. A failure to consider all stakeholders (including the planet) when providing investment solutions would be doing our clients a significant disservice. Therefore, we view the long-term outcomes of corporate activity as integral to the investment process. Values-based investing does not mean compromised returns. In fact, the opposite is true.</p>	<p>The firm has a long history of working with wealthy families, and we believe that capital should not be narrowly defined in purely financial terms. We see wealth as having four distinct, complementary and mutually dependent pillars. We define the Four Pillars of Capital as follows:</p> <p>Financial Capital Tangible assets, business, properties, investments, and intellectual property – items that have quantifiable financial value.</p> <p>Social Capital How we engage with society and the communities we live and operate in.</p> <p>Intellectual Capital Skills, knowledge, experience, wisdom, and societal and individual wellbeing.</p> <p>Cultural Capital Approach to business, treatment of others, contribution to society, values.</p> <p>The Four Pillars provide a framework through which intergenerational success factors can be considered and positive outcomes achieved. Our approach to investment decision making must also address all of these to resonate with our clients and deliver on our core purpose.</p>	<p>Whether we are constructing multi-asset portfolios, selecting third-party managers, individual equities, or corporate issuances, the following is universal to all our approaches.</p> <p>Long term As described above, our timeframe is intergenerational. We select investments and construct ‘built to last’ portfolios that can withstand both market vagaries and systemic risks.</p> <p>Know what we own We know that sound investment decision making is rooted in a thorough understanding of the details. Rigorous due diligence has always been a hallmark of our investment process. It is a source of pride within the firm, and we believe that this thoroughness is an essential component of stewardship.</p> <p>Management Quality Whether selecting third-party investment managers or company management, we focus on their suitability for the role (past experience and record in the industry), their strategic thinking, and their ability to act as good stewards of investor capital.</p> <p>Avoidance of unnecessary complexity We work with families, and we believe it is vital that they know and understand how their capital is being deployed. This builds trust in our ability to be good stewards of capital and results in long-term relationships with our clients.</p>	<p>Our corporate culture emphasises the following values:</p> <p>Family We are a family and embrace the values that make a family harmonious and successful. We treat everyone as we expect to be treated ourselves. We harness our heritage, listen, trust each other and act as one to benefit our clients, our partners and ourselves.</p> <p>Moral Courage We act with integrity and conviction, ask difficult questions of clients and colleagues alike, and without exception strive to do the right thing.</p> <p>Excellence We strive for excellence in everything we do and demonstrate this passionate aspiration in how we think, talk, and interact.</p> <p>These values have been regularly assessed for relevance and authenticity as the business has grown, changed shape and integrated other businesses, and have remained unchanged for well over a decade.</p>

PRINCIPLE I

OUTCOME: LONG-TERM VALUE FOR CLIENTS AND BENEFICIARIES

Our purpose, belief, strategy, and culture are designed to generate long-term value for our clients and their beneficiaries. Importantly, value is defined as investment performance and having comfort with how capital is deployed.

We conducted a survey in 2018 of over 150 clients, advisors, and friends of the firm, which revealed that 75% of respondents wished for their values to be represented in their investments, but only 21% were actively taking such an approach. We have sought to address this through the various measures that were outlined by our CEO, Chris Merry, in his opening remarks.

OUTCOME: SUSTAINABLE BENEFITS FOR THE ECONOMY, ENVIRONMENT, AND SOCIETY

Our approach to capital allocation serves the economy, environment, and society.

As long-term investors, we are providers of patient multi-cycle capital. This allows the managers of those assets, either corporate entities or third-party providers, to invest in projects designed to deliver optimal long-term outcomes, not merely short-term profits.

Second, we only allocate capital after we have conducted rigorous due diligence. This due diligence encompasses a wide variety of factors, including management quality, the degree to which environmental, social, and governance factors are integrated into day-to-day processes, and the overall integrity of the business. We only award capital where we see legitimate and considered understanding of these issues and demonstrable steps in place for continual improvement. Examples of this work are included under [Principle 7](#).

By ‘voting with our feet,’ we incentivise industry members and corporations to become good stewards themselves. Good stewardship begets more of the same, driving ongoing improvements across the industry.

INTERNAL EXPERTISE

Direct Equity

The team invests in best in class businesses for their quality, strategic competitive edge, and value. The objective is to achieve long-term growth in capital in portfolios of high quality listed businesses from around the world. There is a particular focus on the quality of management, sustainable organic growth, balance sheet strength, return on invested capital, free cash flow, and the ability to grow dividends each year.

The direct equity team’s investment philosophy is focused on sustainable growth. Therefore, Environmental, Social, and Governance (ESG) factor analysis has always been ingrained in the research approach and position monitoring process. ESG issues form a key assessment of the quality and culture of the businesses’ management. From experience we know that companies not actively addressing their ESG risks are less likely to generate future sustainable growth. There are also certain sectors that we categorically exclude, namely, tobacco, arms manufacturers and coal miners for not only do they cause significant harm, but one cannot say they have a sustainable future.

Divesting from businesses which don’t meet our ESG criteria

In 2020, we identified a core holding of ours was not meeting the high standards of environmental consideration we expect. It came to light that this company had been polluting groundwater supplies in the US for many years. In addition to these poor actions, the company would likely face significant financial risk as a result of litigation. We sold out of the position despite it having been a good performer since purchase.

01  
EXAMPLE



PRINCIPLE I

EXTERNAL EXPERTISE

Third-party manager selection

Portfolios capture our optimal long-term investment ideas with carefully selected funds and securities. Few exceptionally talented individuals invest well for long periods, and they won’t all reside within a single firm. Our rigorous due diligence process meaningfully narrows the odds of identifying these talented managers.

SFIM UK believes that third-party managers should exhibit good stewardship practices at both a firm and strategy level. Managers also need to show an awareness of environmental, social, and governance factors. These factors should be incorporated into the fund’s investment process. A thorough assessment of these practices is built into our own due diligence process. Additional detail on the incorporation of ESG factors into our analysis is covered in [Principle 7](#).

Allocated capital to new Asia strategy with green economy emphasis

Whilst impact is not a standalone objective for core investment mandates, SFIM puts serious thought into the sustainable characteristics and risks within all portfolios. One of the ways we gain access to businesses with strong sustainable themes is by partnering with third party managers that conduct a lot of research in these areas and emphasise them in portfolios.

In 2021, SFIM invested in an Asia strategy which targets structural growth themes in Asia, particularly areas like clean energy. Significant due diligence was performed on the ESG credentials of the team prior to the investment and we were impressed with their approach to active engagement, such as placing deadlines for more non-executive directors and fairer long-term incentive plans. In addition to this, the team have good records on voting and the broader firm has strong credentials (tier 1 adherence to Stewardship Code, UNPRI signatories).

02  
EXAMPLE

Sustainable Investment Proposition

Our sustainable investment proposition takes a few additional steps. Here, SFIM UK considers the merits of third-party strategies by attaching an equal weight to investment returns and having a positive impact. The latter focuses on the trend of positive impact rather than just investing in the most impactful companies that may have less room to better themselves.

This is primarily measured by mapping the portfolios to the United Nations Sustainable Development Goals (UNSDGs) and tracking their progress over time.

In addition to the mapping process, we expect underlying managers to integrate environmental, social, and governance factors into the inputs and outputs of the investment process to assess whether they pose a material risk to environmental or social objectives and risk-adjusted returns.

Entrenching sustainability by supporting new, highly credible entrants to the market

We identified a fund manager at a firm well-known for its commitment to ESG investing. What drew us to this manager, in particular, was their commitment to sustainable investing, and we saw an extensive effort to incorporate these criteria into the investment process starting in 2018. Impact criteria were embedded into the valuation assessment, not merely the investment case.

Subsequently, a competitor approached the manager, and the competitor lifted the manager and his entire team out to launch a new fund. We knew the competitor’s modus operandi would be to leave the manager to run the process as he saw fit. His entire team remained in place, each of whom are very specialised. This gave us the confidence to enter the fund on day 2 of the launch. We felt confident providing early capital because of our rigorous due diligence process.

The result is that we bolster the fund’s profile in the market and allow a product with good management and integrity to flourish. This has a ripple effect with additional capital flowing in and then on to corporate entities with a true commitment to ESG criteria .

03  
EXAMPLE

## PRINCIPLE 2: GOVERNANCE, RESOURCES, INCENTIVES SUPPORT

Signatories' governance, resources and incentives support stewardship.

### STEWARDSHIP IS SUPPORTED BY SFIM UK'S GOVERNANCE STRUCTURES

A governance structure aims to ensure that an organisation's processes, procedures, and policies are transparent and there is a high degree of accountability.

Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment, and society<sup>1</sup>.

We, therefore, believe that governance that supports stewardship requires the following:

- Highly qualified, honourable, and experienced individuals in positions of trust
- Access to resources and infrastructure that supports stewardship
- Mechanisms through which that work can be assessed and ongoing improvements made
- A culture of transparency and integrity

We believe our business has these elements in place and that our governance structure is aligned with our broader purpose and beliefs (see [Principle 1](#))

#### Oversight and Accountability

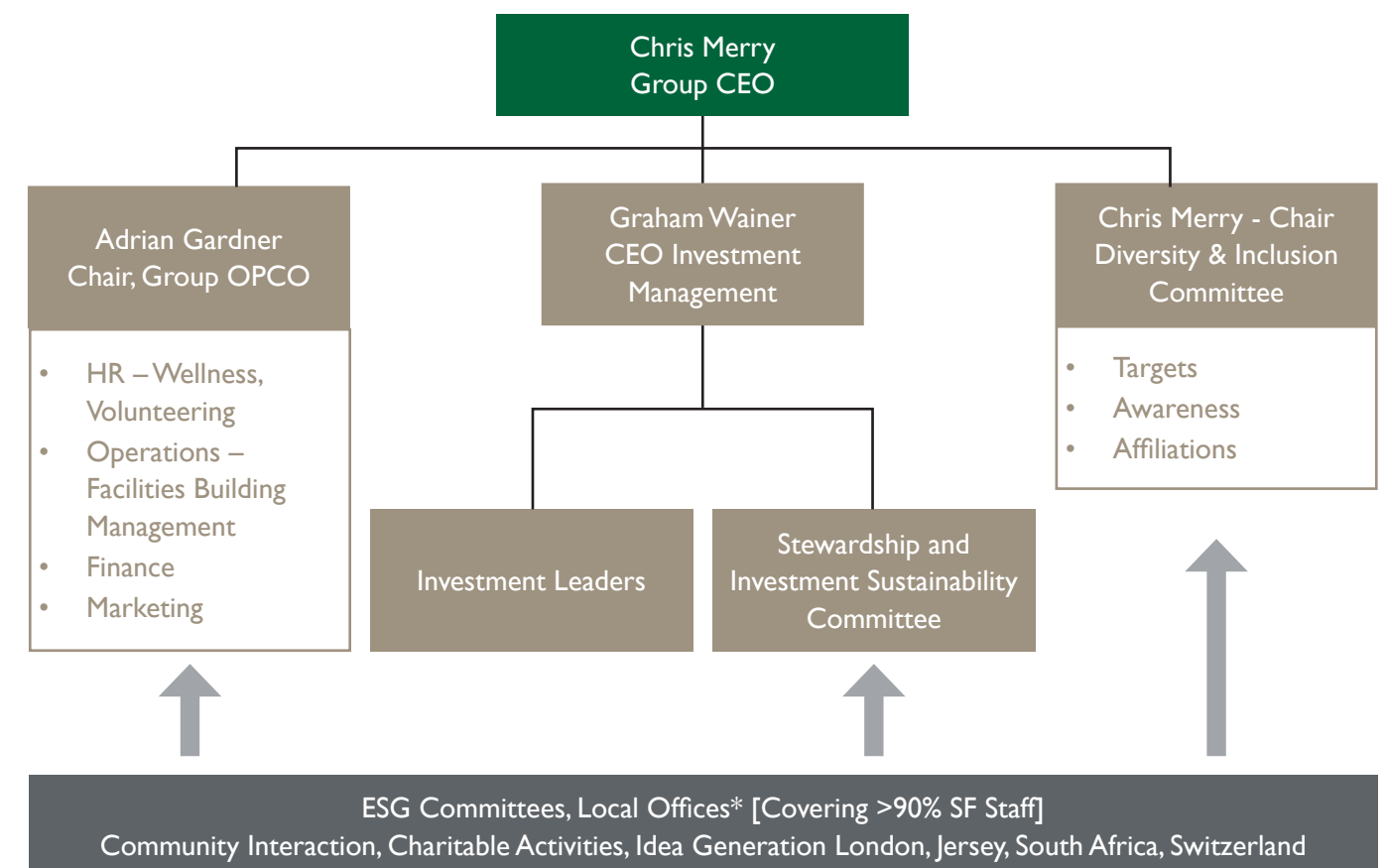
As is typical of a business of our size, we have a governance structure in place to ensure that our business functions effectively serve the needs of all stakeholders (clients, employees, regulators etc.). To achieve those ends, we have multiple Committees charged with fulfilling these specific duties – Group Investment Management Committee, Risk and Compliance Committee, Fund & Security Selection Committee, Performance Review Committee. These all have Chairpersons with the requisite experience to manage the committee and reporting lines which lead back to Graham Wainer, CEO Investment Management, and from there on to the Group's CEO Chris Merry and finally to the Group Board.

1. Source: The UK Stewardship Code 2020

However, this is merely good business practice, rather than Stewardship. Stewardship demands more of us than merely having appropriate governance structures and accountability. Therefore, below, we outline the committees and individuals directly responsible for ensuring we meet the requirement that we create long-term value for clients and beneficiaries and that this leads to sustainable benefits for the economy, the environment and society. Two specific committees in particular support these goals, though our aim is that Stewardship considerations be embedded in all decision making and practices.

Over the past four years, Stonehage Fleming Investment Management UK has progressed from semi-formal, partner-led oversight of a broad range of stewardship activities to a formal governance structure. Today, oversight of these issues is firmly embedded within the business's management structure.

The below schematic shows that all the Stewardship activities now report to the Group CEO. These occur through normal reporting lines or through The Diversity & Inclusion committee that is directly chaired by the CEO.



PRINCIPLE 2

DIVERSITY & INCLUSION COMMITTEE (D&IC)

The D&I committee was established in 2020 with representatives from across business lines, functions, and geographies, with varying levels of organisational seniority. Chaired by our Group CEO Chris Merry, the D&I committee is charged with establishing meaningful and achievable goals to increase awareness of D&I issues and effect change so that Stonehage Fleming is a truly diverse and inclusive business in terms of its staff composition, attitudes and practices. Over the past year it has set and achieved the following:

MARCH 2022

- By the end of March 2022, every employee will have received Diversity & Inclusion training. Diversity & Inclusion training will occur annually going forwards.
- To improve the overall diversity of the Stonehage Fleming workforce, the firm will interview a higher proportion of diverse candidates each year. The target of 20% was set for 31 March 2022, increasing to 30% by 31 March 2023.

MARCH 2023

- To increase the diversity of the workforce in Group Board/Partner positions, the firm has set targets of 20% by 31 March 2023 and 30% over the next five years
- In September 2021, Stonehage Fleming Investment Management UK signed up to HM Treasury’s Women in Finance Charter. We are committed to the principles of the Charter to see gender balance at all levels across financial services firms. To this end we have set ourselves firm targets of reaching 25% women in senior roles by March 2023 and 35% over five years, from 21% today.

GROUP OPERATING COMMITTEE (OPCO)

This body includes leaders of all Group support functions: Operations and IT, HR, Finance and Marketing, and is chaired by the Group COO, who is also a member of Exco and the Group Board.

Buildings and Facilities management for the 18 offices across the Group report into Operations and is responsible for ensuring that best practices in terms of sustainability are applied across the Group, including relationships with suppliers, recycling and waste management, conformity with local regulations, and energy conservation. The business has brought in additional expertise in this area with the hire of Lorraine Whitby in 2020 who has over 20 years of Facilities management experience.

2021 Project

One of the key projects during the reporting period was to find a new London office with strong green credentials. We are pleased to report that the building we plan to move into in 2022 has an Excellent BREEAM rating (top 10% of buildings), an EPC rating of B, and there are various initiatives planned to limit our carbon footprint when switching offices e.g. sourcing new furniture from within the UK.

01  
EXAMPLE

Travel policies governing client-related and intra-company travel are authorised by Finance and HR to ensure that non-essential travel is limited and the Group’s carbon footprint is managed appropriately.

In addition to its involvement with employee health and wellbeing, HR is also responsible for implementing any specific actions agreed/mandated by the D&I committee regarding awareness training and appointments across the Group to achieve agreed D&I targets.

Marketing communicates the Group’s expressions of its social capital, particularly its involvement with charitable enterprises and volunteering across the firm’s offices, to all internal and external audiences.

## PRINCIPLE 2

### LOCAL ESG COMMITTEES

The geographic and cultural diffusion of the business means that community engagement is driven primarily at a local level. Local ESG committees select charities to engage with, through volunteering, raising awareness on the Group's media channels, and fund-raising activities. In addition, the local committees have an important role to play in best practice and idea generation and communication of these to the relevant formal bodies. To ensure consistency and coordination, members of the local committees will often also hold positions on these formal bodies.

We have used external agencies to enhance our investment decision making for many years and further detail is covered in [Principle 7](#). Some of our internal governance structures are newer, and we will definitely find ways in which their scope can be increased and operation and results can be improved.

### STEWARDSHIP AND INVESTMENT SUSTAINABILITY COMMITTEE (SIS)

In addition to the day-to-day management of the firm's investment activities, the SIS Committee is a designated committee of the SFIM UK board. It is charged inter-alia with reviewing practices across the Group in the context of the FRC Stewardship principles and PRI, and effecting submissions to both bodies.

It was established with the below guiding principles:

- We will incorporate ESG issues into our investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities we invest in.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing these principles.
- We will each report on our activities and progress towards implementing the principles.

This committee was formed in 2021 and its reporting structure was fully formalised in 2022. Its first order of business was to conduct a review of our current processes and ensure their consistency with the stated principles. Following this review, the committee elected to prioritise the following:

- Integrate stewardship into the incentivisation process and make it a more definitive part of our appraisal process.
- Grow and enhance our engagement with other industry members.
- Further integrate sustainability questions into the Suitability assessment when on-boarding clients.
- Incorporate Stewardship related criteria into our assessment of service providers.

We look forward to reporting on our progress with respect to these objectives in our 2023 Stewardship Report.

Under [Principle 5](#), we expand on the functioning of the Stewardship and Investment Sustainability Committee by describing the tangible day-to-day structure we have established in order to demonstrate its effectiveness more clearly.

### Incentivisation

A clear Remuneration Policy is essential for employees, clients, and shareholders to be confident that remuneration governance is consistent with best practices and promotes sound and effective risk management. Employee remuneration consists of both fixed and variable elements. The fixed element comprises basic salary and benefits. The variable part includes an annual bonus and long-term incentive awards which may involve equity options and growth shares.

A portion of a GBI research analyst's bonus is indirectly influenced by their engagement with the companies they cover, in so far that the performance of their investment recommendations and valuations is considered in their annual performance appraisal. Investment performance targets are also included within their annual objectives and reflect the fund's long-term commitment to quality and sustainable growth.

As noted above, an action point for the Stewardship, Sustainability & Governance committee is to review our appraisal and incentivisation process and make consideration of stewardship a more definitive component.

# PRINCIPLE 3: MANAGE CONFLICTS, BEST INTERESTS, CLIENTS FIRST

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

## SFIM UK CONFLICTS OF INTEREST POLICIES AND PROCEDURES

SFIM UK maintains a comprehensive Conflicts of Interest Policy that applies to all of our activities. Managing conflicts effectively is central to our duty of care. The oversight falls to our Risk and Compliance Team, but the responsibility rests with the management team.

We define conflicts as either ‘Structural’ or ‘Transactional.’ Each business unit has a Conflicts of Interest matrix, which details structural conflicts and records how these conflicts are managed and controlled. It is reviewed, at a minimum, annually. Transactional conflicts must be recorded separately within the Group’s central Conflicts of Interest Register.

SFIM UK, in the management of conflicts, refers to Financial Conduct Authority (FCA) **Principle 8** of the FCA Principles for Business, which sets out the fundamental obligations of all authorised firms under the regulatory system. This Principle has been expanded in Chapter 10 of the FCA handbook’s Senior Management Arrangements, Systems and Controls sourcebook (SYSC). It requires firms to take all appropriate steps to identify and prevent or manage conflicts of interest.

### Examples of Conflicts and their Resolution

SFIM UK did not have any specific conflicts that were unique to the reporting period, but below are a series of entrenched conflicts that we manage on an ongoing basis.

### Allocation of capital to our in-house equity offering by our multi-asset team.

The vast majority of our multi-asset portfolios are invested in external managers, but we do allocate capital to our in-house teams. When we do use internal offerings, we are guided by the following:

- We will use in-house products only where we believe wrapping its investment strategy, which could otherwise be offered as a set of direct investments, into a fund structure will enhance clients’ investment outcomes.
- We will reduce the financial conflict of interest of generating additional fees. Where a client is paying our standard multi-asset fee, any in-house products used will either have a zero management fee class, or the multi-asset fee will be reduced by any management fee charged within the product.
- All in-house investment products are scrutinized and evaluated using the same parameters set for third party external managers.

01  
EXAMPLE

### The vintage structure of private capital and the resulting variability of client outcomes

Private capital is a unique asset class. As a result of its illiquidity, private capital managers raise a fund in a particular year and close that vintage.

Individual funds and vintages can generate highly variable performance, resulting in different outcomes for different clients.

To address this high level of variability, we established a private capital programme for our clients. This programme allocates capital to 6-7 funds each year, and clients participate annually in each vintage.

This results in a more consistent investment in this asset class and less diversity in outcomes.

02  
EXAMPLE



PRINCIPLE 3

Material conflicts of interest - Equity selection

Material conflicts of interest for our equity selection team include:

- SFIM UK (or an affiliate) serves as financial advisor to or provides other services to the Investee Company
- The proponent of a shareholder proposal is a SFIM UK client
- An employee of SFIM UK has a material relationship with the Company
- An employee of SFIM UK (or an affiliate) sits on a company's Board of Directors

When such a conflict of interest arises, SFIM UK will remain impartial in exercising proxy voting rights by abstaining or voting based on the majority recommendation made by a proxy advisor, currently Glass Lewis.

Issues may arise where SFIM UK determines that there is a material conflict of interest. In such instances SFIM UK will notify the specific client of its voting intentions. If there is disagreement between SFIM UK's voting intention and the wishes of the individual client, SFIM UK will abstain from the specific vote for that client. SFIM UK will also consult the Stonehage Fleming group conflicts interest policy and may take further action if required.

03  
EXAMPLE

Differing client objectives and requirements.

Due to our significant resources, we are frequently able to customise our offering to suit the specific needs of our individual clients including the values that are important to them. For example, we have equity mandates and multi-asset mandates with specific exclusions for example, excluding all companies on PETA's list.

Additional information on how we respond to unique client circumstances is described in [Principle 6](#).

04  
EXAMPLE



# PRINCIPLE 4: IDENTIFY, RESPOND, PROMOTE

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

## SFIM UK PORTFOLIOS

As defined above, our purpose is to preserve the real wealth of the clients we serve across multiple generations. Consideration of systemic risk is essential to the fulfilment of our stated purpose. A major adverse market event may result in market losses, but these should be recoverable and not result in the permanent loss of client capital.

Our portfolios, therefore, are built with the following ideology, which serves to reduce the impact of systemic risk events:

- a long-term, multi-year mind-set
- a global orientation
- an emphasis on high quality investments
- avoidance of leverage
- avoidance of complexity

While the portfolios are built to be robust and withstand a variety of market conditions, this needs constant appraisal and review. Our investment committee takes responsibility for ensuring this, and our Risk team informs that process.

The responsibilities of the investment committee

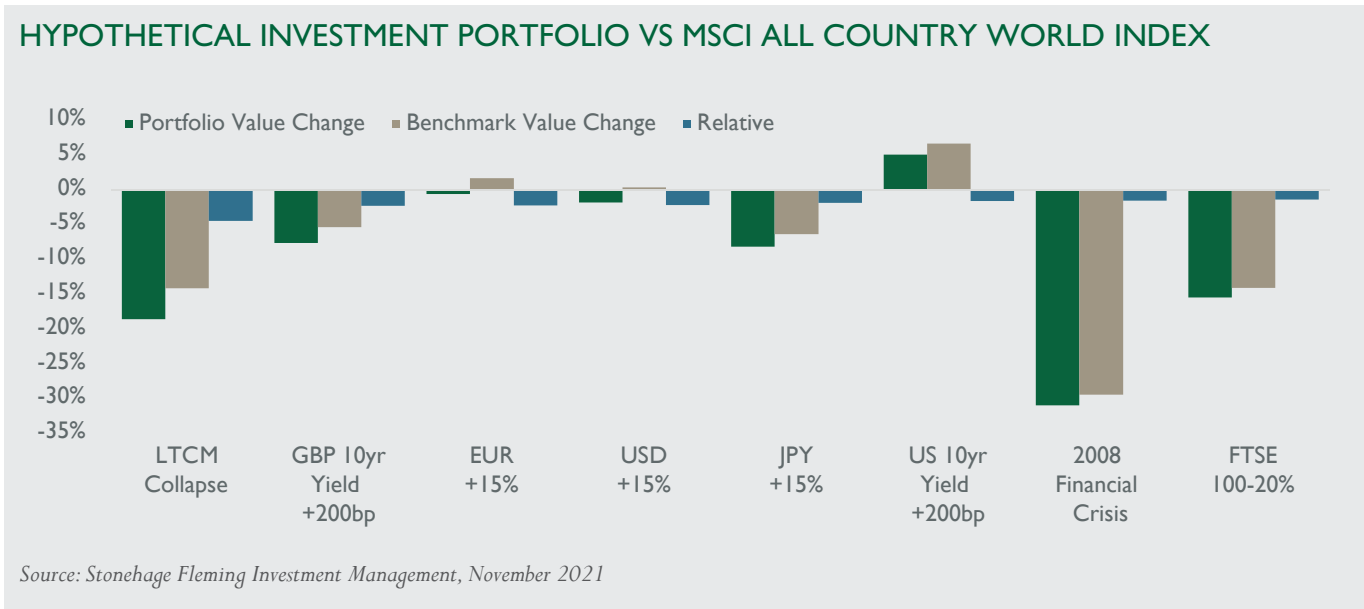
The investment committee is led by Graham Wainer (CEO Investment Management) and consists of John Veale, Peter McLean, and Mona Shah. The committee meets weekly and is responsible for establishing our clients’ strategic investment approach, including an appropriate risk framework, strategic and tactical asset allocation, and the population of portfolios with suitable investments. The committee also directs the research team to investigate new opportunities and reviews manager research reports on funds and products before submitting them to the Fund and Security Selection Committee.

The Investment Committee approaches market-wide and system risk from several different angles.

## Managing market-wide risk

The Investment Committee utilises risk reports and stress tests generated by FIS® Investment Risk Manager (formerly APT) – an external risk management system. This allows us to review historic systemic events and evaluate the outcomes that our current portfolios might have sustained during those events. This is helpful in assessing the sensitivity of the portfolios to systemic shocks and ensuring that the risk of the portfolios is commensurate with the risk tolerance of the client. It also allows us to input alternative adverse scenarios (interest rate changes, currency fluctuations, etc.) and determine how these may impact portfolios.

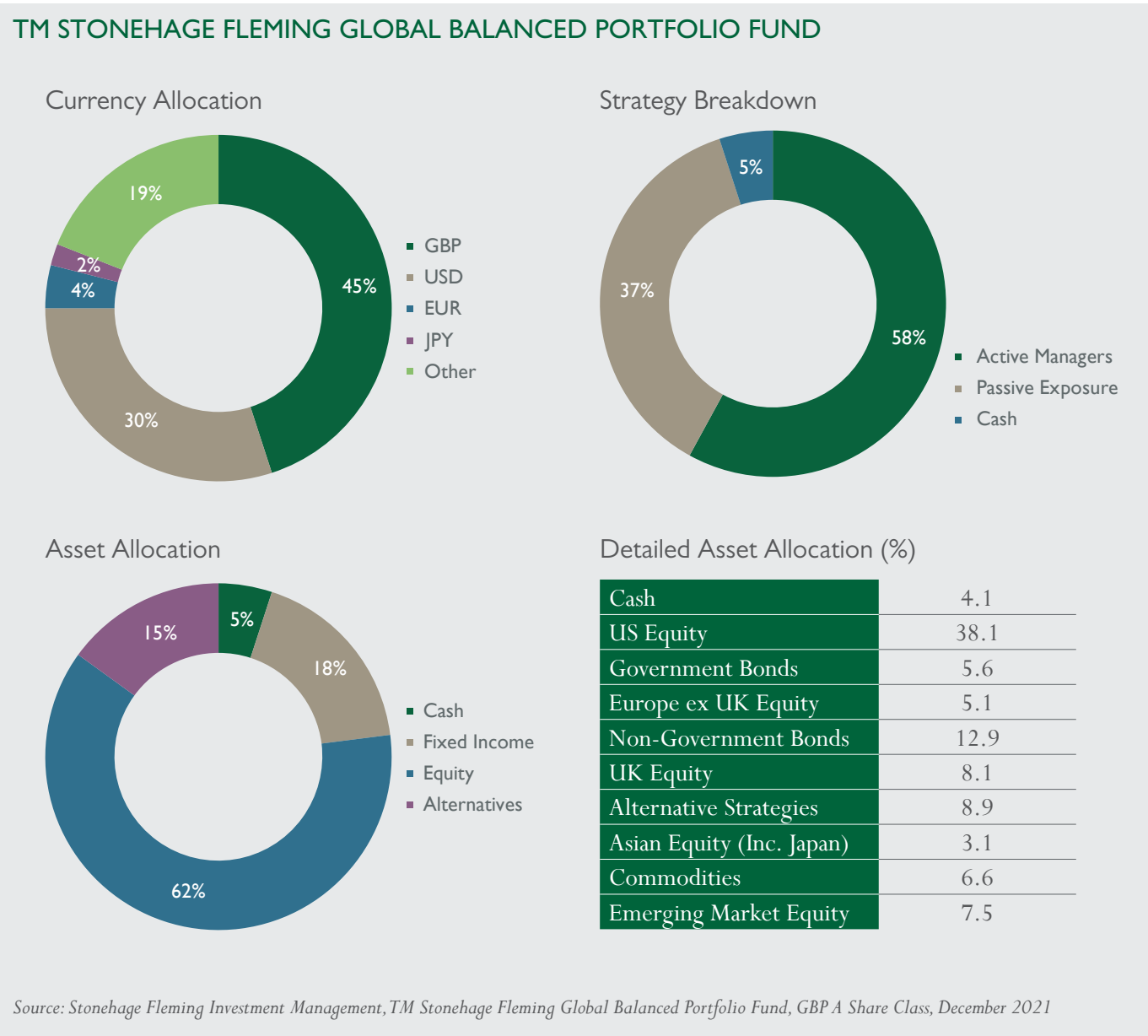
Below is a sample of our Scenario Analysis tool, which allows us to see how the portfolio is likely to be impacted by either historical events or different stress scenarios. While we cannot predict what might occur in the future, this sort of stress analysis is good at highlighting correlation risks which might not be as conspicuous when reviewing basic exposure reports. In this hypothetical portfolio, the sensitivity is high to stress scenarios and may require changes.



PRINCIPLE 4

But, models are only as good as the data they draw upon.

We pride ourselves on the granularity of our information and obtain underlying holdings data for most of our third-party managers. Therefore, we can review portfolios on a ‘look-through’ basis to ensure we identify all cross-holdings and concentrations and get a clear picture of exactly how and where our client’s capital is deployed.



Managing Systemic Risk – Business Failure

Counterparty risk

In terms of managing the risk of the failure of an entity, we review our core custodians in the following way:

Annually	The Operations team send a due diligence questionnaire to each of our core custodians. Questions include staff turnover, potential legal actions, media coverage. We also receive the latest financial results and AAF reports. The results of the questionnaire and analysis of the reports are reviewed at the Outsourcing & Counterparty Committee and Risks & Controls Committee meetings
Bi-annually	On a bi-annual basis, all brokers are reviewed by the SFIM UK Dealing team to ensure they are meeting agreed service levels and remain appropriate for use. The Bi-Annual review is presented to the Risks & Controls committee.
Monthly	<p>CDS spreads on core custodians are assessed monthly. Any concerns are immediately escalated. In periods of financial stress, CDS on core custodians will be monitored more frequently.</p> <p>In addition to the CDS monitoring performed by the investment team, we also engage a third party credit ratings agency which provides a continuous credit monitoring function and advise on any material changes to the credit rating.</p>
Ongoing	<p>Counterparties are monitored by the Compliance team by uploading them into the Risk Screen application. This application screens for sanctions and legal and reputational issues.</p> <p>Anyone within the organization can recommend a suspension of trading with a counterparty at any time if information becomes available through the various monitoring frameworks.</p>

PRINCIPLE 4

Third-party manager failure

We manage the risk of failure by a third-party manager by conducting extensive and detailed upfront due diligence and then in-depth ongoing monitoring. Our upfront due diligence process can take many weeks and includes multiple meetings with management and operational staff, detailed documentation review, and a thorough challenge process at both the Investment Committee level and the Fund and Security Selection Committee. Once approved, we meet at a minimum annually with core fund managers, conduct a detailed assessment of performance quarterly and review the annual audited financial statements of the fund when released.

We do not have an example from the current reporting period, but we believe the following examples from prior years demonstrates our proactiveness with respect to identifying the risk of failure. Often this is more acute within the hedge fund industry and both examples are drawn from within this industry.

Lack of controls

We reviewed the operational infrastructure of a hedge fund. In doing so, we noted that the fund appeared to hire staff in their operations department with limited industry experience for key roles such as compliance and risk management. We also noted three instances of hiring within staff families. We inferred that this meant one of three things:

- A lack of awareness of best practice
- Intentionally hiring staff with limited experience
- An unwillingness to spend on high calibre staff.

This loose approach to their operational infrastructure was deemed insufficient.

01  
EXAMPLE

Liquidity concerns

Within one of the funds we were reviewing (a pre-existing client holding), we noted a rising allocation to illiquid positions while the fund manager continued to provide liquidity to existing clients without making what we believed were sufficiently meaningful fair value price adjustments for the illiquid component. If this trend continued, we determined that the illiquid assets would grow in size to the detriment of existing fund investors. We therefore recommended that our investor seek to redeem this position.

02  
EXAMPLE

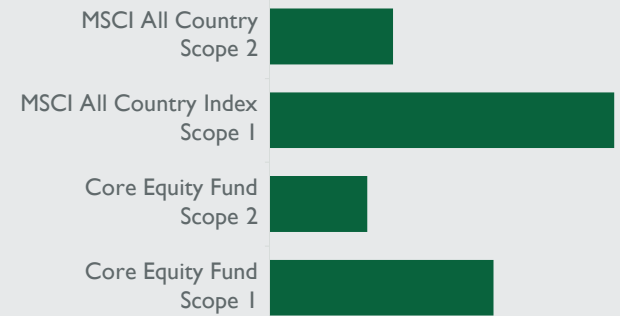
Managing Systemic Risk – Climate Risk

Climate change poses a significant risk to the health of the financial system, and we as a business, have a responsibility to play our part in helping to mitigate this.

This starts with our own carbon footprint and we have made a number of changes in the last year, such as increasing the amount of waste that is recycled or donated (now close to 100%), as well as smaller changes, such as consolidating shipments and ordering larger volumes. Importantly, and as already touched upon, we are moving to new offices in 2022 and the green credentials of the new building was a key factor in our decision making.

Climate change is also one of the long-term material risks for asset prices. We look to mitigate this through analysis and engagement for our direct equity holdings with more detail provided on this in [Principle 7](#). For indirect investments, we have obtained additional climate datasets, which allow us to look-through to portfolio carbon emissions scope 1 & 2 data for our aggregate equity holdings (see below) – we plan to monitor these going forward to further enhance our risk management.

SCOPE 1 & 2 EMISSIONS -  
LOOK-THROUGH DATA



Source: Morningstar, SFIM. Data as of March 2022

We also engage with underlying fund managers to understand how they examine climate risk and the potential impact on portfolio holdings. It is our expectation that by working closely with some of the most talented external fund managers, our clients will benefit from managers getting ahead of the curve on which companies will be more resistant to climate change. The example below shows a proprietary carbon tax model for a company that one of our US equity fund managers are invested in - helping to highlight companies more or less at risk from climate change.

Year	Estimated 'Tax' USD
FY2020	22,563,318
FY2021	23,005,736
FY2022	23,448,154
FY2023	23,890,572
FY2024	24,332,990
FY2025	24,775,408
FY2022 Tax as a % of Net Income	2.40%
Warming Potential Scope 1	1.4°C

Source: Findlay Park, Responsible Investment and Engagement Report H1 2021

We have looked at our own carbon footprint and we have reviewed the practices of the companies we own and the managers we select. However, there is more work to be done to understand the impact of climate change on our client's portfolio outcomes. As shown above, we are reviewing how others in the industry are approaching this and will look at best practice in terms of measuring and reporting on potential outcomes.



PRINCIPLE 4

Encouraging responsible practices

We take many active steps to engage with others and influence issuers to address systemic risks within their portfolios.

A high percentage of our underlying managers, particularly within the fixed income and equity categories are UNPRI signatories. However, many of our alternatives and private capital positions are drawn from the US market where, unfortunately, the UNPRI is less widely known and applied. We have recently written to all managers who are currently not signatories to clarify their intentions to become signatories and also in this way, spread the message more widely that this is worthy of consideration.

We also refer you to the following points captured elsewhere in this document which touch on this subject.

Principle 7	Integration of ESG considerations into our investment analysis process. In particular Climate Related risk.
Principle 10 and Principle 11	Engagement with issuers to influence outcomes via voting or direct engagement. In addition, engagement by those to whom we have delegated this responsibility.
Principle 11	Industry collaboration to drive best practice.
Principle 12	Actively exercising our rights and responsibilities.

Climate change poses a significant risk to the health of the financial system, and we as a business, have a responsibility to play our part in helping to mitigate this.

# PRINCIPLE 5: REVIEW, ASSURE, ASSESS

Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

## SFIM UK UNDER REVIEW

Under [Principle 2](#), we demonstrated the governance structures we have in place which are tasked with reviewing our policies, assessing their effectiveness and assuring our processes.

The below gives additional detail on the Stewardship and Investment Sustainability Committee and its day-to-day functioning and how it will reflect on the firm’s effectiveness with respect to Stewardship, Sustainability and Governance matters.

The committee consists of senior members from across the business, including Mona Shah, Head of Sustainability, and John Veale, Deputy Head of Investments. The committee reports to Graham Wainer.

Annually	On an annual basis, the committee will review the policy and approach of SFIM UK and ensure that it is meeting the requirements as defined in <a href="#">Principle 2</a> .
Quarterly	<p>On a quarterly basis, the Committee will review management information that is useful in assessing the effectiveness of our processes in meeting the stated objectives of the committee. These will include:</p> <p><b>Voting Records</b></p> <p>Votes undertaken by the investment management team will be reviewed and we will ensure that all votes taken are consistent with our philosophy and objectives.</p> <p>Refer to <a href="#">Principle 12</a>, where we expand on our actions in respect of voting.</p> <p><b>Engagement including outcomes</b></p> <p>We will review all instances of engagement across both the equity selection and manager selection teams and review the outcomes of these engagement actions. This will provide opportunities to review successes and failures and help shape best practice on an ongoing basis.</p> <p>Refer to <a href="#">Principle 9</a> &amp; <a href="#">Principle 11</a> where we have examples of our engagement.</p> <p><b>Regulatory Reporting</b></p> <p>The committee will review Regulatory reporting requirements and ensure these meet the requisite standard and are being conducted in a timely and professional manner. Examples of requisite regulatory reporting include the Shareholder Rights Directive and the Sustainable Finance Disclosure Regulation (SFDR).</p>
Adhoc / Ongoing	When due, the committee will review our submissions to The Financial Reporting Council in the form of the UK Stewardship Code and the submission to the United Nations Principles for Responsible Investment.

The commitment to submit reports to both the Financial Reporting Council and the United Nations Principles for Responsible Investment has been helpful in driving organizational improvements with respect to accountability and measuring our effectiveness. We anticipate that with each annual submission, we will further sharpen our internal processes to the benefit of our clients and our business. We refer you again to [Principle 2](#), where we defined the items which are a priority for us in 2022/2023.



# PRINCIPLE 6: ACCOUNT, COMMUNICATE, INVEST

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

## SFIM UK'S APPROACH TO CLIENTS

No two family clients have identical investment needs. Some of our clients are in the first generation of family wealth; others have many members across multiple generations, where succession and governance can be key investment issues.

We have a large team and a limited number of clients. This allows us to spend considerable amounts of time with each client to fully understand them and their beneficiaries' needs. As stated in [Principle 1](#), our starting point for a new relationship is always to understand the purpose of a client's investments, the timescale, their attitude to risk and return, the beneficiaries, and the role of any other advisers. We articulate clearly what is achievable and how we intend to go about it.

When taking clients on, we conduct a thorough and comprehensive understanding of their needs, and revisit periodically (and update where appropriate). A key element of this process is to feedback to clients so that they are fully informed as to how their portfolio is being managed to meet their requirements.

We provide detailed written reports and commentary quarterly and then in-person review meetings as required. We are not prescriptive about the amount of contact we have with our clients. It is their money, or money for which they have a fiduciary responsibility, and we are at their disposal as frequently as they wish.

An example of our reporting on multi-asset portfolios and a direct equity mandate:



CLICK ON THE IMAGE TO REVIEW AN EXAMPLE REPORT

As reference, we describe two different families who required different approaches. We believe these examples demonstrate the extent to which we fulfil a stewardship role for each unique set of circumstances.

## Intergenerational wealth transfer

The G family consists of five siblings. They own a business currently valued at GBP320m. Half of the family reside in the UK, the other half of the family reside in their country of origin. In the next few years, the family intends to create an intergenerational transfer of assets by selling a portion of their business. They needed help to:

- Define the purpose of their wealth
- Establish an investment strategy that will meet the long-term needs of present and future generations
- Populate a portfolio of assets to meet these requirements

We assisted in the following way:

- Created a formal Investment Council for the family which included family members and SFIM UK. We could then provide investment guidance while accommodating the different viewpoints of the various family members.
- The Investment Council, with our assistance, was able to define a purpose of wealth and a set of investment principles which incorporated family values.
- Younger members of the family were included in our 'Next Generation' seminar (see further detail below). In addition, we held an educational session where we could improve the working knowledge of the family with respect to sound investing principles.
- We now meet with Investment Council every quarter where we review the portfolio, each of the holdings and discuss and reinforce the long-term nature of our investment approach.

01  
CLIENT  
EXAMPLE



PRINCIPLE 6

Client example 2 – Risk seeking entrepreneur

We met with a wealthy entrepreneur who although now retired, remained a director of his business. In addition, he was managing his own investment portfolio and was comfortable taking significant investment risk within this portfolio. However, his son was concerned that should anything happen to his father, he would need to take responsibility for the family’s investments and he felt ill-equipped to do so. He, and several other family members, also had a different risk profile to his father. The family wanted help to:

- Review the investment portfolio and look at ways to reduce the risk taken in the interests of a wider set of beneficiaries as well as concerns that in a cyclical downturn, the founders’ core business might struggle.
- Engage other family members in the management process so that the one child didn’t bear all of the responsibility and also manage succession planning and mitigate future disputes about leadership.

We therefore:

- Established a family constitution and a family council.
- SFIM UK reviewed the entire portfolio and gave recommendations on a staggered approach to reducing overall risk and over time transitioning the portfolio into a more stable, balanced portfolio that was less aggressive.
- This involved establishing long term strategic asset and currency targets.
- Having annual meetings with the entire family not only the patriarch to review the portfolio. This improved communication and gave other family members greater insight and the opportunity to ask questions.

02  
CLIENT  
EXAMPLE

NEXT GENERATION CONFERENCE

Principle 6 asks signatories to take into account client and beneficiary needs and seek their views. We believe we are skilled at doing so because of the personalised approach we take. However, perhaps less documented, is that many of our clients struggle to articulate what those needs are, particularly when we reach beyond the realm of the purely financial. We want to encourage active thought and discussion around the purpose of wealth. While all clients have welcomed these discussions, we often see the greatest engagement coming from younger family members.

As the future custodians of the family wealth, we believe that it is crucial that the next generation feels able to have meaningful conversations, play a part in key decisions and understand their role – be that in a family business, running an estate or engaging with wealth from an investment or philanthropic perspective.

The Four Pillars of Capital are a vital tool for us in our support and education of the next generation as they begin the process of understanding the responsibilities that go hand in hand with the privilege of wealth. We run two Next Generation programmes a year, both of which are in conjunction with other professional firms. We have worked with the Big Four accountancy practices, a leading private bank and law firm, the Judge Business School in Cambridge, digital and reputation management agencies and communication specialists, in addition to fulfilling aspects of the agenda from our in-house subject matter experts.

We and our partners have provided this valuable educational programme pro bono, with participants asked to make a donation to our chosen Charity Partner. Most recently, this was Envision, a community action charity helping young people from less privileged backgrounds acquire life skills not generally taught in their schools.

## PRINCIPLE 6

### Sharing Sustainable Data with Clients

As shown in [Principle 7](#), [Principle 8](#) and [Principle 9](#), SFIM gather a range of data on investments and managers, which include the E, S and G scores, how many are UNPRI signatories, and the underlying voting data. When reporting back to clients in regular updates, this data is available to be shared in presentation packs in order to inform clients what the ESG credentials of their portfolios look like.

Additional data is shared on our Sustainable Investment Strategies, where we have sought external expertise in mapping the underlying investments to the UN Sustainability Goals framework. We are actively considering including this analysis on other portfolios we manage and gathering client feedback on whether there is consistent demand to see this additional information of level.

### Work in Progress - Suitability Process Review

We believe we are good at taking the time and care to understand our client's objectives across the broader definition of capital that is at the heart of our approach (Financial, Social, Intellectual and Cultural). However, we see room for improvement in terms of deepening our understanding with respect to Sustainability. We have a fantastic offering for clients who express an interest in this area, but we have not expressly raised it as a topic with clients during our onboarding process.

Last year, we established a working party to review and refresh our suitability process. More explicitly incorporating client views on issues of Sustainability will be worked into our suitability and onboarding processes going forwards. We look forward to reporting on progress made when we submit this report again in a year's time.

# PRINCIPLE 7: INTEGRATE, INVEST, FULFIL

Signatories systematically integrate stewardship and investment, including material environmental, social, and governance issues, and climate change, to fulfil their responsibilities.

## STONEHAGE FLEMING INVESTMENT MANAGEMENT UK

Under **Principle 1**, we outlined how as a business, we integrate material environmental, social and governance issues into the fulfilment of our overarching responsibilities. Here, we provide more detail on how ESG factors are integrated within direct investments and when allocating capital externally.

### INTERNAL EXPERTISE

#### Direct Equity

ESG risk factors are considered for every holding in the GBI strategy, and the process includes scoring the company on ESG as part of our fifteen point ‘Quality Test.’ Our detailed due diligence on any potential investment involves an ESG analysis which discusses in depth a company’s track record, any ongoing risks and the level of management engagement. To consider in-depth information, we use the services of an independent ESG risk assessment provider, RepRisk. They use independently sourced data to provide a risk-based ESG score.

All companies which we own and those we don’t own but we cover in core universe are continually monitored and assessed for their ESG risks by our team of analysts. A core strength of our approach is our own in-house research capability that we rely on to form our opinions and to drive our investment decisions. Our analysts allocate material research hours to assessing and engaging with companies on ESG topics.

#### Example

We recognised that the ESG profile and risk of one of our holdings was deteriorating at 3rd party risk providers, despite our analysis that the company was taking constructive steps to address its ESG risks and was in fact a global leader in driving change in key areas. As a result we conducted a thorough review of this company that focused exclusively on ESG topics. We considered all known risks and their degree of impact, 3rd party opinions and scores, company ESG policies and programmes and their impact and also an assessment of the company management’s, their governance and overall approach to ESG topics. The review identified flaws in the current 3rd party risk scoring process, and served to reinforce our understanding of the positive impact and change this company was achieving. It did identify areas of risks, particularly in scope 3 missions and its supply chain, which we will incorporate into our engagement with the company going forward.

01  
EXAMPLE

We also consider ESG specific metrics such as Green House Gas emissions and use of renewable energy and any ESG risks that are specific to the industry (refer to the example below). Our long standing valuation framework has always incorporated into our discount rates the specific beta of a company relative to the MSCI to reflect the relative risk of an investment. We believe that in some cases the risks associated with ESG (either positive or negative) should be reflected in that discount rate too. We use a discount rate adjustment factor which links to the company’s RepRisk scores to quantify this in an objective way. We then discuss whether that discount rate adjustment is justified and whether the market would ever apply the penalty or premium on those grounds.

Within our core direct equity fund, we actively encourage all of our invested companies to commit to the Paris Alignment Pledge and other international standards/targets, for example we monitor the percentage of our companies that have joined Amazon’s Climate Pledge, support the Task Force on Climate Related Financial Disclosures (TCFD) and are signatories to the UN Business Ambition for 1.5.

### REPRISK

RepRisk considers 27 different core ESG related risk categories and insight into a further 45 sub-categories. At a company level, it provides regional and divisional data and an assessment regarding UN Global Compact Principles.

They use a combination of artificial intelligence and analyst research to source independent third party data and information to provide a risk-based ESG score. They also provide insight into a company’s degree of controversy with regards to the UN’s Global Compact Principles and Sustainable Development Goals, and the Sustainable Accounting Standards Board (SASB) workplace standards.

ESG risk scoring on RepRisk is a live stream – it constantly updates to reflect the latest information, and as such, our views must constantly include this new information, which is alerted to us electronically. If the ESG risk rating rises or falls above/below a certain threshold, the team will review the new information and come to a decision on whether the new risk profile materially affects the long term return potential of the equity. We may decide to maintain our position, sell out or even buy more as a consequence of that discussion.



PRINCIPLE 7

Voting

To obtain the right information regarding the votes put to shareholders, we subscribe to proxy voting advisor, Glass Lewis. They provide us with unbiased and impartial information on each of the votes to support an informed decision.

We are not bound to follow Glass Lewis advice and often vote against them, where our own voting policy or research leads to a different view. We keep full records of Glass Lewis’ recommendation and where we may differ. The data is published on our [website](#). Glass Lewis has also recently acquired Arabesque and BitSight. Through them we receive access to additional data on our company’s ESG performance, and Cyber Security risks. The same Glass Lewis reports also provide a summary of Sustainalytics ESG risk scores, Arabesque’s ESG profile, and a Bitsight cyber security risk profile.

Addressing Climate-related risks in our portfolios

A more prominent feature in our research over the recent past is a growing focus on the precise environmental footprint of each company and their efforts and success in improving on it. The level of available data differs by company and we are engaging more with our portfolio companies and potential portfolio candidates to encourage them to disclose more detail. Inevitably, therefore, the depth of our analysis is limited by the available data. We look forward to building this research out further, with more depth and breadth as industry reporting standards improve.

Where we have better information, we seek to analyse the legacy footprint (across all ESG factors including but not limited to carbon footprint and other climate change inducing pollutants) and form a view on how the company is approaching improving on this and their track record so far.

There are many industry providers who evaluate portfolios on the basis of different scoring methodologies. Our preference is to review multiple sources and then drill down at the stock level to understand what is driving a metric in a particular direction. There is not a one-size fits all approach and we try to review ESG related scores with a sense of pragmatism and depth rather than relying on a single headline number. We believe this is a better way to truly quantify the ESG related risk within the portfolio.

Example I - Amazon

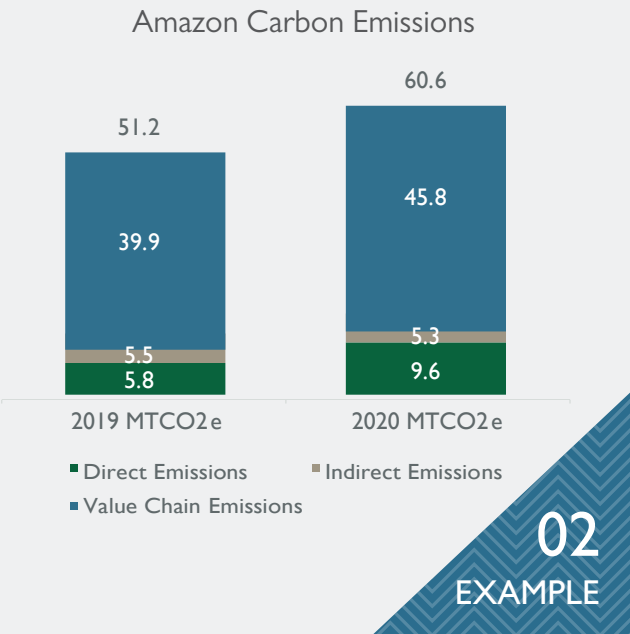
Amazon is a good example, where there is a high level of detail provided by the company and we are able to do a relatively comprehensive analysis. Our research looks at high level, third party ratings of the company (provided by Bloomberg, Morningstar and our ESG research provider, RepRisk) in the first instance. This helps summarise the company’s position and highlights strengths and weaknesses.

Our analysis proceeds to drill down into the metrics supplied by the company. In the case of Amazon, we are provided with Carbon Emissions data (scope 1-3), the intensity rate over the last 3 years and the percentage of renewable energy used across the company. With growing companies it is natural for the footprint to grow, what is important is that they are able to reduce that intensity rate to limit the growth of the emissions footprint as far as possible.

Where the company has provided future targets, we would summarize them and form a view as to their ambition and likelihood of success. In the case of Amazon there is a long list of targets across all of E,S and G.

Finally, we turn to governance and consider who is accountable for achieving these goals and how they are incentivised or measured on progress. We review our own voting record at AGM/ EGMs and flag where the controversies lie and set out future engagement priorities.

Our assessment concludes with an overall impression of the scores and the more qualitative data at our disposal to form a view on the company and whether the company still deserves a position in the portfolio in light of its footprint and all its mitigating actions.



Source: Amazon, 2021 published Sustainability report

PRINCIPLE 7

Direct Fixed Income

Our fixed income team do not have explicit exclusions within models or client accounts that are applied indiscriminately. Typically, as these portfolios are bespoke, they are often led by the client’s stated preferences. If there are no explicit preferences, then the full investable universe of high-quality credits is considered.

While there are no explicit constraints, the team believes that companies that exhibit good ESG credentials will more than likely have also addressed risks that can potentially impact them financially. ESG related factors are important in determining a business’s credit spread and overall risk profile.

Data is drawn primarily from Bloomberg and other vendors to independently assess ESG factors (vendors such as Sustainalytics, MSCI, S&P, ISS, CDP and others).

EXTERNAL EXPERTISE

Third Party Manager Selection

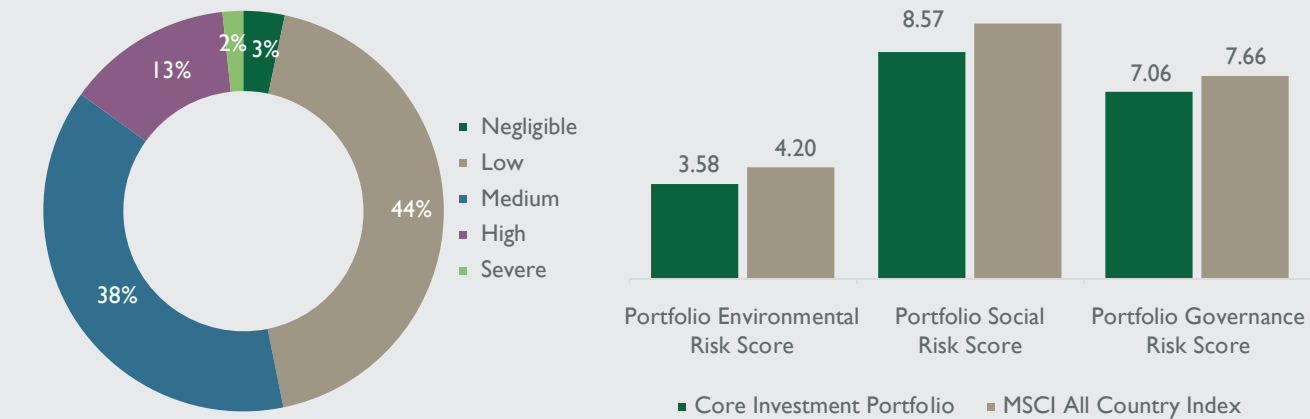
ESG and stewardship considerations are fully integrated into SFIM UK’s third-party fund assessments. These reports look at the extent to which ESG is incorporated into the investment process. It will include:

- An assessment of the voting records.
- Looking at the firm and manager’s history to determine if they have historically been good stewards of capital.
- Considering the incentivisation structure at the firm and whether the investment teams’ interests are aligned with clients.
- Assessing the operational infrastructure at the firm to ensure that appropriate controls are in place.

We expect our underlying managers to have good voting data and for the underlying firms to strive to do more – such as becoming UNPRI signatories, which is an area we have engaged with all managers on, in the past 12 months. Our fund due diligence reports have a detailed section dedicated to understanding the underlying third party manager’s approach to ESG.

In addition to the qualitative assessments of individual managers, we also look at quantitative data which comes through Sustainalytics to understand our ESG risk exposures. The data below considers the equity component of our Balanced multi-asset portfolios and we are able to break out which managers and which businesses are contributing to the higher risk exposures that come through the portfolio. We don’t aim to avoid all of these, but they act as discussion areas with underlying managers who need to provide sound reasons for continuing to hold the company or why they disagree with the Sustainalytics assessment. Our portfolios currently have lower risk scores within each component than the broader global equity benchmark (MSCI All Country Index).

ESG EXPOSURES IN CORE PORTFOLIOS



Source: Morningstar, data as of March 2022. Core Investment Portfolio reflects data for TM Stonehage Fleming Global Equities Fund, a building block for core GBP investment portfolios.

Rewarding the right market participants with capital

A well-established third-party manager with a highly credible track record in the traditional investment space launched a sustainable strategy. Given the credibility and track record of the management team, we went to review it. However, in meetings with the team, it became clear that this initiative was an asset-raising exercise. Senior management described the launch as a way to attract capital from Scandinavia. While the analysts and the manager involved showed a deep commitment to the fund’s goals, senior management made clear that the approach was not a priority through both their statements and the limited amount of capital they allocated. We declined to make an investment.

03  
EXAMPLE

# PRINCIPLE 8: MONITOR, HOLD TO ACCOUNT

Signatories monitor and hold to account managers and/or service providers.

## SFIM UK SERVICE PROVIDERS

We review our counterparties from the perspective of systemic risk (outlined under [Principle 4](#)) and we review our underlying investments from the perspective of both systemic risk and stewardship (outlined under [Principle 4](#) and [Principle 7](#) as well as detailed below). However, this exercise has prompted us to recognize that the firm engages with many other service providers and we do not have a dedicated mechanism by which we review these entities from a Stewardship Perspective. We have included this as an item for review by the Stewardship and Investment Sustainability Committee going forward.

## INTERNAL EXPERTISE

Our teams are constantly questioning whether our managers and service providers are our best possible solution. We consider this both on a formal, quarterly or annual basis and in a more ad hoc manner as we use and interact with them or investigate alternatives.

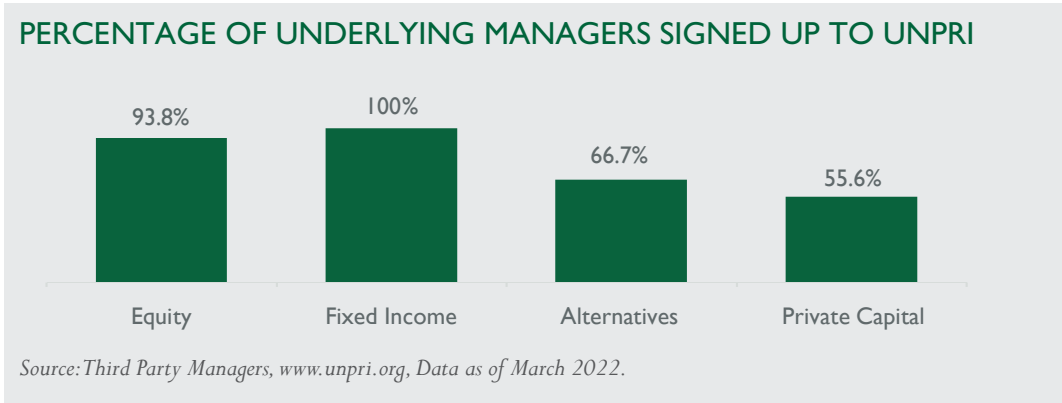
We have conducted reviews of stewardship providers but chosen not to use their services, preferring to engage directly ourselves.

We do review Glass Lewis vs. ISS periodically to ensure we have the most appropriate data. We also review the product they provide (have considered their ESG weighted recommendations).

## EXTERNAL EXPERTISE

### Underlying third-party managers

As part of our initial assessment on a manager we will also consider the stewardship credentials of the firm and wouldn't allocate capital to a manager where we could not get comfortable with the governance and stewardship history. In addition to looking into the history of a business, we also like to see the firm working with various organisations to improve their credentials (UNPRI, Stewardship Code and others).



A high percentage of our underlying managers, particularly within the fixed income and equity categories are UNPRI signatories. However, many of our alternatives and private capital positions are drawn from the US market where, unfortunately, the UNPRI are less widely known and applied. We have recently written to all managers who are currently not signatories asking about their intentions to become signatories and also in this way, spreading the message more widely that this is worthy of consideration.

We track the resolutions voted on by underlying managers to ensure they engage with company management and actively participate.

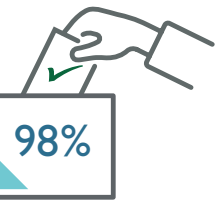


PRINCIPLE 8

While we delegate the voting responsibilities to third party fund managers, the approach to stewardship and voting is one of the key areas that we conduct due diligence on. In order to be considered as a candidate for capital, fund managers need to demonstrate that they take their stewardship responsibilities seriously; this includes a good voting record, an appropriate level of engagement which fits with the process and philosophy of the strategy, honest and transparency in their dealings with us and signifies that this is an ongoing area of improvement. In order to form a view on these matters, SFIM UK will acquire voting records and read through stewardship reports, and often go back to the manager to query certain votes. One of the metrics we follow is total resolutions voted on by our underlying equity managers<sup>1</sup> and the most recent data was 98%.

Once a manager is onboarded, we conduct regular and thorough ongoing due diligence to ensure that a fund's credentials have not deteriorated and we want to see signs of ongoing improvement. Discussions on these matters are had at our quarterly third party manager review meetings and also when updating our full fund reviews which are refreshed every 3 years.

1. Relates to the TM Stonehage Fleming Global Equities Fund, a fund of fund vehicle used to wrap client investments in third party equity managers. Data from underlying managers gathered in 2021 and reflecting their most recent available data. iShares and Vanguard ETFs are estimates based on overall voting statistics



Our third party equity managers voted on 98% of voting resolutions

Ensuring an ETF provider voted on key issues

As part of our review of active voting by asset owners, we were in discussions with a large ETF provider in 2021. We were intrigued as to how they fulfilled their voting obligations as they frequently engaged in securities lending activity. When stocks are lent out, they would be unable to vote. The ETF provider advised that they have an active process by which they recall the stocks on voting days to enable them to exercise their rights, and following additional discussions, we formed the view that the asset manager does take these responsibilities seriously.

01  
EXAMPLE

Tackling the board of a fund manager

While this example is not from within the reporting period, we do feel it demonstrates our significant commitment to following through on stewardship issues.

In 2020, we chose to reallocate capital from one equity fund to another at the same asset manager. We had been in discussions with the asset manager for several months flagging our intentions to do this. However, shortly after making the switch, the asset manager announced that they had taken one of the key portfolio managers off the strategy to concentrate their efforts elsewhere.

We were disappointed from a transparency and governance perspective given the decision had been made prior to our switch but not communicated to us. We felt these actions warranted not merely a discussion with the fund management team, but a greater degree of escalation. We therefore formally wrote to the board to express our profound dissatisfaction with the sequence of events.

02  
EXAMPLE

PRINCIPLE 9: MAINTAIN, ENHANCE  
PRINCIPLE 11: ESCALATE, INFLUENCE

9: Signatories engage with issuers to maintain or enhance the value of assets.  
11: Signatories, where necessary, escalate stewardship activities to influence issuers

All of our investment strategies actively engage with issuers to maintain and enhance the value of the assets we hold on behalf of our clients. We also view the escalation of stewardship activities and influencing issuers in this regard as integrated into the maintenance and enhancement of value.

We, therefore, address [Principle 9](#) and [Principle 11](#) on a combined basis.

INTERNAL EXPERTISE

Direct Equity Team

The Direct Equity teams all regularly engage with management, as described above and more fully in our [SRD II Engagement Policy document](#).

Engagement is integrated into the investment process as part of the initial due diligence and then the ongoing monitoring of an investment. In our detailed research reports for GBI investments, we consider the most salient ESG concerns and list key topics to engage on with management. These are then posed as questions to management when that opportunity arises. We will also actively vote in Proxy Votes held at AGMs and EGMs in a way that best protects the long term investment returns of our clients. Our strategy focuses on selecting management of exceptionally high quality upfront.

While engagement with senior management is key, at times it is essential to hear views from other key stakeholders such as the Chair, non-execs and divisional managers. Presentations at Capital Market Days are a useful way to gain insight to the workings and to be able to challenge and further understand a business's operations. Post meeting feedback, positive or negative, is given to the advisors which can be given on an attributable or non-attributable basis.

In most instances, when we engage, we will seek to meet management face to face or hold a telephone conversation. Where this is not possible, written communication is used via email or letter.

Since the end of 2020, we have provided an annual report for Global Best Ideas on our website on engagement that details our engagement activities, including disclosure on our Proxy Votes. This can be found at on the [GBI Website](#) in the documents named 'GBI Voting and Engagement RecordYYYY'. This includes:

- a description of voting behaviour
- an explanation of the most significant votes
- the use of the services of proxy advisors, and
- a description of how we have cast votes in the general meetings of companies

The smaller Direct Equities Funds will report on these activities in due course in a similar fashion.

In 2021



We voted on **94%** of the meetings for which we were eligible.



We voted against management in **5%** of the resolutions, and in **43%** of the meetings, we voted against at least one resolution.



We voted against the recommendation of our Proxy adviser in **8%** of the resolutions.

Examples of where we have engaged over the past year include the following:

Company A

Complaints of sexual harassment and a bullying culture were raised at Company A, and a lawsuit against the company was initiated. We were concerned that the cultural issues were not being sufficiently addressed and that insufficient management change had occurred. We reached out to IR to raise these concerns via email. In response, they organised a call with us to discuss several personnel changes, including a new Chief People Officer from a prominent and highly regarded firm and other policies they had put in place to address the issues. We were sufficiently comforted that remedial actions were being enacted. We retained our position rather than selling and continue to monitor the situation closely. We were consequently rewarded by being stockholders when a takeover bid was announced.

01  
EXAMPLE

PRINCIPLE 9 & 11

Direct Fixed Income Team

As described in [Principle 7](#), ESG factors are incorporated into the investment process for Fixed Income. Given the size of the assets SFIM manage, we believe our most significant value add to clients is through credit selection with an investment and ESG lens. The scope for engagement is more limited as SFIM represent a very small holder of each direct bond. However, in the highly unlikely event of a corporate failure, we would seek to exercise our rights to the fullest extent available to us.

SFIM is cognisant that ESG and engagement is a lot more prevalent within equity as an asset class rather than Fixed Income, and we look forward to further developing our own approach in this area as the industry evolves and becomes increasingly transparent e.g. improved datasets.

EXTERNAL EXPERTISE

Third-Party Manager Selection

Within our multi-asset offering that invests in internal and third-party funds, we address the issue of engagement in several ways:

- Vote on fund resolutions to ensure that areas like director and auditor appointment are in order amongst other ad-hoc resolutions
- Engage with the underlying portfolio managers to ensure that they are taking their engagement responsibilities seriously
- Engage with senior management at the various fund houses to ensure that the business is going in the right direction on areas such as ESG and engagement

We expect a very high level of transparency and frequency of communication from our underlying third-party managers.

We constantly engage with them and question their activities and approach. Below are some examples of where we’ve pushed and prodded to ensure that our selected managers deliver on their obligations to be effective stewards of our client’s capital.

US equity fund

Goal	Engage with US Equity fund to understand why there were several unusual resolutions in their AGM for 2021.
Background	US Equity Fund’s AGM in 2021 had some resolutions we don’t typically see, including a change in fund structure to a ManCo, moving to a swing price mechanism and switching auditors.
Outcome	SFIM UK discussed this with the manager and understood that the changes were driven by the Central Bank of Ireland’s preference for funds to move to a ManCo structure. Importantly, the US Equity Fund covered the costs for this switch and did not penalise investors. On the auditor matter, it was a mandatory requirement on EU audit reform for the manager to change their auditor in the next few years. Finally, the swing price mechanism is there to protect existing fund investors and something that SFIM UK supports.

02  
EXAMPLE

Investment Management Company B

Goal	SFIM UK had an investment in Company B’s Global Income fund. We wanted to engage with the firm’s new CIO to form a view on their credentials, governance at the firm, and how ESG is expected to evolve.
Background	Company B appointed a new CIO, X in 2020. This role was a previously filled by Y, but it was part-time given his fund management responsibilities, and we had some concerns over whether he was the right person for the job.
Outcome	SFIM UK believes that X’s appointment is beneficial to the business as he can fully concentrate on this without fund responsibilities. Areas like having oversight of liquidity and risk are essential functions, and Y could not dedicate much time to it. X has a strong background in Sustainability and ESG and is looking to promote this further within the strategies.

03  
EXAMPLE

PRINCIPLE 9 & 11

Private Capital - Active engagement to ensure client interests are protected

Our private capital selection team are active in protecting client interests. The firm’s clients had an investment in a private corporate lending strategy. As is typical of private capital vehicles, this was an illiquid investment and the firm’s investment on behalf of our clients made us a Limited Partner (LP) of the fund. The two managing partners of the fund were seeking to complete a full management buyout of the General Partner and needed LP approval. SFIM UK required full background and assurances regarding any implications to investors resulting from the transaction before providing any approval.

SFIM UK’s private capital team members held detailed discussions with the two Managing Partners to determine the proposed structure of the new entity and ownership chart, any implications to investment strategy or expected fund returns, and the creation of any conflicts of interest.

We were satisfied with the results of the detailed discussions and determined that the proposed transaction would not make any material changes to the management of the portfolio.

In fact, following our review, we determined that the management buyout would result in a greater alignment of interest with LPs and therefore was a positive proposition for clients. We approved the transaction.

04  
EXAMPLE

Additional Examples – Actions by our selected third party managers

In turn, we expect to see our fund managers engaging themselves with the companies held in their portfolios. Here are examples of actions our fund managers took during the reporting period to protect and enhance the value of assets and address environmental, social and governance concerns – it includes managers from both core investment mandates and sustainable mandates This is precisely the sort of activity we expect to see.

US Equity Fund

Company engaged with	A comprehensive US waste management company incorporating solid waste collection, disposal, and recycling.
Goal	Reduce carbon and methane emissions from landfill sites (decomposing waste is a high emitter).
Background	<p>Covering landfills appropriately can help reduce emissions. The gas can be converted into energy at the later stages of a landfill, specifically renewable energy and sold as renewable energy credits. This approach to landfill management can present a potential ‘win-win’ – reducing a firm’s carbon footprint while increasing and diversifying its revenue.</p> <p>The US Equity fund encouraged the waste management company to explore adding this technology to more sites, pointing out specific site candidates based on their research. They were delighted to learn that the company had also identified these sites as candidates and is exploring five potential opportunities in its development pipeline that will significantly impact emissions.</p> <p>The fund also recommended the implementation of an emissions reduction target, and in particular, pointed the firm to the Science Based Targets Initiative and reporting progress to the Carbon Disclosure Project. Conversations were developed particularly around how the investment community uses this data for various ESG reporting frameworks.</p>
Outcome	Management has committed to improving their reporting in these areas and for their 2021 Sustainability Report and wider messaging on their impact on climate change. We should not discount the additional revenues from carbon credits either.

05  
EXAMPLE

PRINCIPLE 9 & 11

Environmental Equity Fund

Company engaged with	A conglomerate that develops water treatment systems with its core business segment of wastewater treatment.
Goal	Understand the company’s physical climate risk at a more granular level relating to individual plants and get management to implement risk-mitigating processes.
Background	The Environmental Equity Fund seeks to understand climate risk related to sea level rises and resource scarcity for every stock they own, using precise location data. They successfully engaged with the company to get exact location data for 500 of its water treatment sites in China. The fund then ran this data through their models, and they were able to enlighten the company management team on where water and heat stress was elevated. Greater sea level rises would pose a risk for operations.
Outcome	The company has since provided additional data to the fund and requested further analysis to learn more about how best it can mitigate physical climate risk. We expect more progress here in the coming year and expect the company to plan such a strategy.

06  
EXAMPLE

Japan Equity Fund

Company engaged with	A financial services conglomerate
Goal	Increase % of female managers, although it is above the average in Japan at 25% versus 15%.
Background	The Japanese government has set a target of 30% for female managers, and the fund has engaged to ensure that management understands it is not just about hitting the target. It is about putting in place the appropriate culture, internal training and flexibility to improve female participation at all levels of the work-force. This will reap benefits in terms of revenues, profits and problem solving, particularly as the company further diversifies into renewable energy.
Outcome	The company has not explicitly considered more flexible working, and female-specific training, so it will do this and report back to the fund.

07  
EXAMPLE

PRINCIPLE 9 & 11

Impact Equity Fund	
Company engaged with	A refiner and recycler of EV batteries
Goal	Reduce the amount of carbon emissions which have increased as the company has grown.
Background	<p>Despite the company producing battery technology for electric vehicles and in turn, reducing carbon emissions their own emissions have recently gone up due to higher production. Last year, the Impact equity fund asked the company to set GHG reduction targets for the first time. The company acknowledged a lack of reporting and said we could expect absolute and intensity targets in the new strategy.</p> <p>The manager also asked that the new strategy include waste and water targets, with much-improved disclosure going forward. The company is looking into Task Force on Climate-Related Financial Disclosures (TCFD) reporting and acknowledges that while complex and time consuming it does need to be done.</p>
Outcome	<p>The company announced significant progress in Q2 2021, with net-zero emissions reduction targets (scope 1 and 2) set for 2035 and a commitment to report against the TCFD framework. Furthermore, the company also committed to publishing a scope 3 reduction target in 2022. This will better enable the fund to assess the impact potential of the company.</p> <p>The company announced significant progress in Q2 2021, with net-zero emissions reduction targets (scope 1 and 2) set for 2035 and a commitment to report against the TCFD framework. Furthermore, the company also committed to publishing a scope 3 reduction target in 2022. This will better enable the fund to assess the impact potential of the company.</p>

08  
EXAMPLE

PRINCIPLE 10: PARTICIPATE, COLLABORATE, INFLUENCE

Signatories, where necessary, participate in collaborative engagement to influence issuers.

SFIM UK INDUSTRY ENGAGEMENT

We are increasingly looking for ways to collaborate with others in the industry to influence issuers.

Stewardship Council for ACT

City Hive is an advocacy group working in partnership with companies to build an inclusive Investment Management Industry and an equitable and sustainable society. Mona Shah, head of Sustainability at SFIM, and a number of fund selectors, joined with City Hive to establish the Stewardship Council of ACT. ACT stands for Action, Challenge and Transparency and is designed to create systemic change around how asset management firms value diversity and inclusion rather than rewarding tokenism. It is a commitment by fund selectors to playing our part in levelling the playing field in fund management by showing asset managers we care about this. The work with the Council links back with structures we have in place internally, such as the D&I and ESG Committees (see Principle 2), and that is why our business has agreed to participate in this initiative.

ACT has prepared a set of questions for fund selectors to ask as part of their due diligence process. The questions will reside on the DOOR platform. The objective is that these questions go to the heart of these issues rather than asking for metrics which are often ‘greenwashed’ or fail to recognize those who value invisible diversity e.g. cognitive, socioeconomic. This is now something that SFIM will be incorporating in fund due diligence going forward and we look forward to providing more detail on our findings in next years’ report.



PRINCIPLE 10

#10000 Black Interns

Our London office was one of the founding participants in this scheme when it started life as 100 Black Interns and we continue to join over 250 of the investment management industry’s leading firms to participate in the success of this scheme, as it has now grown to #10000 Black Interns. The programme, dedicated to offering over 10,000 internships to black students across the UK each year, aims to help young adults kick start their careers in investment management and improve diversity in the City.

In 2021 we took on one intern (we had offered two places but one had to drop out before the internship started due to unforeseen circumstances) and are signed up to take interns in 2022.

We also work with other professional firms to engage our younger clients through our Next Generation seminars (Refer to [Principle 6](#)).

EXTERNAL EXPERTISE

Direct Equity

Our primary equity offering allocates capital to mega-cap companies. In these instances, we are small, minority shareholders and it would be challenging for us to collaborate with other investors to effect change. However, we do collaborate through our voting of proxies and Glass Lewis is effective in joining shareholders together to address specific issues.

Within our other equity funds, we do hold positions in stocks with lower market capitalizations where we can have a more direct impact on outcomes and also collaborate with other shareholders to effect change. Here we have engaged with senior management and other shareholders when thought appropriate on matters of directors’ remuneration, length of service of non-executives, and other issues which are not seen to be in the best interests of the shareholders of the OEICs where we act as managers. Ensuring a board has the right incentive structure and expertise is of particular importance to our business (see [Principle 2](#)) and can help to reduce some of the systemic risks that we identified earlier in [Principle 4](#), such as market risks and business failures.

PRINCIPLE 12: ACTIVATE, RESPONSIBILITY

Signatories actively exercise their rights and responsibilities.

INTERNAL EXPERTISE

Direct Equity

The Direct Equity teams all actively exercise their right to vote in all Proxy Votes, where they have the discretion to do so and where there is nothing to prohibit doing so. A description of how we vote is detailed in our [Voting Policy](#).

Voting Statistics For The Reporting Period

Number of meetings we were eligible to vote at	27 AGMs and 3 EGMs
Number of resolutions we were eligible to vote on	427
% of resolutions we voted on for which we were eligible	94%
Of the resolutions on which we voted, the % we voted with management	95%
Of the resolutions on which we voted, % we voted against management	5%
Of the resolutions on which we voted, % we abstained from voting	0%
% of meetings where we voted at least once against management	43%
% of resolutions where we voted against the recommendation of our proxy adviser	92%
% of votes in line with result	95%
% of votes on Governance (and % supported)	14% (64%)
% of votes on environmental and social issues (and % supported)	6% (17%)

Source: *Stonehage Fleming GBI 2021 Voting Engagement Record*

PRINCIPLE 12

The teams make their own informed decisions on how to vote in all instances. We may use the information provided by proxy advisors, such as Glass Lewis, but will not necessarily follow their recommendations.

Segregated clients may opt out of [Proxy Voting](#), for instance, when their custodian charges an additional cost.

We monitor our portfolios for upcoming votes through notifications from Broadridge and directly through our custodians.

Since the end of 2020, details of our Proxy Voting activities for GBI have been produced annually and can be found on our [website](#).

The team does not engage in stock lending.

Ineffective workplace sexual harassment policies

In November 2021 we voted against the Board of one of our holdings in respect of a shareholder proposal requesting a report on the effectiveness of the company’s workplace sexual harassment policies. The Board were against the proposal, but taking into account the independent proxy research we reviewed, we decided that additional reporting on this matter is warranted, particularly given repeated claims made against the Company. Over 77% of shareholders supported the resolution that will hopefully lead to increased Board focus on the issue going forwards.

01  
EXAMPLE

EXTERNAL EXPERTISE

Third-Party Investment Managers

SFIM UK’s investments in third-party managers are primarily through external collective investment schemes where the third party managers have full discretion on how to vote.

Under [Principle 8](#), we included data tracking our manager’s voting records and highlighted that while we delegate out voting responsibility, the underlying managers need to demonstrate that they take this responsibility seriously.

As part of our initial assessment on a manager we will also consider the stewardship credentials of the firm and wouldn’t allocate capital to a manager where we couldn’t get comfortable with the governance and stewardship history.

Once a manager is on-boarded, we conduct regular and thorough ongoing due diligence to ensure that a fund’s credentials in this area have not deteriorated and prefer to see an ongoing improvement trend. Discussions on these matters are had at our quarterly third party manager review meetings and also when updating our full fund reviews which are conducted every 3 years.

If SFIM UK disagrees with how this is being conducted or with a particular vote, then we will look to engage directly with the fund manager. If it is a material disagreement, then we may consider disinvesting.

SFIM UK will also look to vote on fund resolutions and consider whether fund changes, auditor/director appointments, and other matters are in the best interests of our clients. Examples of these were provided in [Principle 8](#) (Ensuring an ETF provider voted on key issues), [Principle 9](#) and [Principle 11](#) (US equity fund’s unusual AGM resolutions and providing LP approval regarding a full management buyout by the GP of a private capital vehicle).

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