The UK Stewardship Code – Compliance Statement

Policy // April 2020

THIS DOCUMENT ALSO SERVES TO OUTLINE OUR APPROACH TO DISCHARGING OUR OBLIGATIONS UNDER THE SHAREHOLDERS RIGHTS DIRECTIVE AND THE ASSOCIATED RULES WITHIN THE HANDBOOK OF THE FINANCIAL CONDUCT AUTHORITY.

We take a long term in our approach to investment and see adherence to the UK Stewardship Code as an important part of the overall approach to investment management at 7IM.

The Financial Reporting Council (FRC) encourages all UK institutional investors to publish a statement on their website of the extent to which they have complied with the Code, containing a description of how the principles of the Code have been applied and disclosure of specific information.

This document explains how 7IM complies with the Code on behalf of its clients.

Code principles

Principle 1: Publicly disclose their policy on how they will discharge their stewardship responsibilities.

7IM adheres to the Stewardship Code by undertaking voting on company proposals, engaging with companies and monitoring of stewardship responsibilities to outsourced investment managers and funds in proportion to its size as an asset manager and to its position as a mainly fund of funds manager and manager of passive and systematic funds.

Where 7IM makes active investment management decisions to buy companies (such as closed end funds), it meets and monitors management on a regular basis and engages when appropriate. An example of such engagement is discussion of the discount control mechanism with a view to putting a mutually beneficial share repurchase policy in place, so that if the discount to the share price falls below an agreed level a share repurchase is triggered. Another example might be to discuss the merits of moving from a junior market to a main London Stock Exchange listing to enhance coverage and liquidity, albeit that this would involve further listing requirements and expense. Finally, it may be appropriate to engage with a company if 7IM considers it may be in the best interests of investors for a company to be wound up rather than continue trading.

The funds bought by 7IM are either recommended by an external consultant, who has conducted extensive due diligence before recommending them to 7IM, or are chosen by the 7IM in-house fund selection team that meets the portfolio managers to establish their investment policies for strategy and stock selection and to ensure that the fund manager has appropriate governance policies in place, including a voting policy. If 7IM became concerned about governance within the fund or had other concerns, it would have the option of engaging the external consultant to work through these concerns with the company or to engage with the fund manager directly. If it was not satisfied with the response, 7IM would look for another fund that did have the appropriate policies in place.

When 7IM outsources stock selection to an external manager, that manager is bound by their investment mandate to follow the investment objective as defined by the fund prospectus and to follow appropriate policies and procedures. This includes reporting from time to time on voting and engagement. 7IM has satisfied itself that the external manager has the appropriate resources, policies and procedures in place to fulfil the stewardship requirements, including receiving regular reports on the funds and regular contact with the managers to make sure all the aspects of the mandate are observed.

7IM does not engage with the managers of passive funds in which its funds are invested. However, it would expect these managers to engage and vote in line with the policies laid out on their respective websites in terms of engagement, sustainability of financial performance over the long term as well as providing insight into environmental, social and governance considerations where possible. If 7IM was particularly interested in a governance issue with any stock which was also held in a passive fund, it may be appropriate to engage with the fund manager to coordinate engagement activities. When 7IM buys stocks to create passive stock baskets, the voting responsibility remains with 7IM. In these instances, 7IM implements its internal voting policy, which is to vote in line with management unless there are compelling reasons to vote differently.

7IM uses the services of a proxy voting provider to expedite voting decisions. The purpose is to ensure that there is a suitable record of voting activities that can be made available to investors in the funds should they want to see how 7IM has voted. 7IM considers that, by differentiating its approach to stewardship, it is discharging its stewardship responsibilities in the optimum way, making use of the services of the portfolio managers and fund managers to which stock selection is outsourced as well as conducting their own due diligence on stewardship on actively and passively held individual stocks.

Being a signatory to the Stewardship Code means adhering to its principles and, further, means keeping updated on developments in environmental, social and governance issues. Incorporating these issues into the existing investment process and sharing them with the wider investment committee that advises 7IM on investment policy helps the 7IM investment management team to make better informed decisions.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

A link to the 7IM conflicts of interest policy is included below. It is regularly reviewed and updated for new conflicts that may arise and to improve procedures. 7IM has identified areas where conflicts of interest may arise. An example is the receipt of sensitive information. Due to the nature of the investments 7IM makes, it is unlikely this will be a frequent occurrence and any such information is reported to the Compliance Officer.

Other examples of conflicts of interest with respect to the funds themselves are situations where a hostile takeover takes place and when the funds hold investments in both companies, the target company and the acquiring company, and/or situations where both equities and bonds are held and the interests of equity holders are in conflict with the bond holders.

In all situations, the overriding purpose of the 7IM investment stewardship policy is to protect and enhance the economic interests of our clients, so the conflict is settled by reference to the clients' best interests. If this does not produce a satisfactory outcome or if there is a conflict that falls outside the terms of reference of the policy, the Conflicts of Interest Committee will convene to resolve it.
http://www.7im.co.uk/financial-intermediary/regulatory-and-legal/conflicts-of-interest-policy

Principle 3 – Institutional investors should monitor their investee companies.

Due to the nature of 7IM's mainly fund of funds' business, the main area of monitoring is the fund groups rather than individual companies, which are held passively. However, when companies are held actively, 7IM monitor's the companies to ensure that capital is being deployed effectively, that the long term outlook remains valid and that the company is following this strategic direction in an effective manner. All fund data is monitored closely by the 7IM investment management team to assess whether funds are keeping to their investment objectives, performing in line with expectations and in line with benchmarks, if appropriate. The 7IM investment management team meets regularly with the portfolio managers to discuss current strategy and performance and any issues that may have arisen with the fund. While the monitoring of active managers is clearly very important and there is very regular contact, the passive funds within portfolios are also monitored for performance with attention paid if funds do not appear to be tracking their benchmarks closely enough.

7IM has regular meetings with the senior management of companies in which it invests. These meetings examine performance, value drivers, potential risks to capital and management and corporate governance issues.

7IM would engage with companies if there were concerns about performance, value risks or management or corporate governance concerns. Similarly, if there were concerns about a company within one of the funds, 7IM would ask the fund manager to engage with the company on its behalf.

On very rare occasions, 7IM might consider becoming an insider. However, engagement without being an insider would be the preferred portfolio manager route. 7IM is aware of the risks of becoming an insider and has procedures and policies in place, which mean that such dialogue is kept out of the public domain and registered with the compliance department. The information then remains only between the manager with the information, the compliance department and the company until the matter is in the public domain.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities as a method of protecting and enhancing shareholder value.

7IM is mainly a fund of funds and passive fund manager; consequently, the opportunities for 7IM to intervene or escalate their stewardship activities is fairly limited. If 7IM had concerns about a company held in a fund in terms of its performance, governance, remuneration or approach to risk, it would enter into an active dialogue with the manager of the fund. Following engagement with the manager, if 7IM still had concerns, it might be appropriate to sell the fund.

Engagement with companies held in passively run portfolios is not undertaken. If a company's shares are directly held, engagement may be appropriate in circumstances when company behaviour disappoints. 7IM would initially engage with its main company contact, which may be the company adviser. If 7IM did not get answers to its questions, the next stage is to seek to communicate with one of the company's directors; in strict confidence. 7IM may then use our clients' votes to address our concerns voting against management. Occasionally, 7IM may share concerns with other shareholders as this may have a more effective outcome than acting on our own.

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

Where 7IM believes it is in the interests of its clients, 7IM will participate in collaborative engagement activities. Collaborative engagement may be more appropriate than acting alone in certain instances; such as, but not limited to, during times of significant corporate or wider economic stress, when the risks posed threaten the ability of the company to continue, and where 7IM's shareholding may not be sufficient to exert influence alone.

The contact for such collaborative engagement will usually be one of the 7IM senior investment. 7IM has not recently been involved in such collaborative activities given the high proportion of 7IM investments being in fund of funds or in passive funds.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

7IM seeks to votes all shares held actively and passively where voting rights are held. In so doing, 7IM takes into account the UK Corporate Governance Code and other international guidance on governance when voting such as board structure, remuneration and shareholder rights seeking to vote with management unless we are dissatisfied by a company's adherence to these governance codes. Votes against management and abstentions are recorded through the proxy voting service with notes where appropriate.

The policy on disclosure of voting activity is to make records available on request to clients who wish to see it. The number of clients who make such request has been very few; consequently, this has been a satisfactory way to manage the voting reports. If the number of requests to see the voting record were to increase, 7IM will consider moving to half yearly or even quarterly reporting.

Where stocks are held in funds the fund manager is responsible for voting the shares; but, if there is an issue about a company proposal that 7IM believes contravenes the code, 7IM would communicate this to the portfolio manager. When 7IM outsources stock selection to an external manager it has policies and procedures in place governing what is expected from the external manager in terms of voting and governance activity. The manager reports to 7IM with regular updates on governance activity.

7IM does not use an advisory service to recommend how to vote. It considers that, by undertaking this activity using internal resources, it better reflects 7IM's governance views rather than by taking an external advisor's recommendation with which 7IM may disagree. This may change if the internal resource at 7IM is insufficient to expedite the voting in line with 7IM's governance objectives.

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

7IM reports to clients on stewardship and voting activity, when requested; which, given the fund of funds and passive fund nature of 7IM's investment activity, tends not to be very often. 7IM believes that this may change now that the Stewardship Code is becoming better known and more asset managers are signatories. If there is an increase in demands from clients to see the records of stewardship and voting activity, 7IM will endeavour to produce a more frequent reporting schedule. Currently 7IM reports back to clients if they request a copy of the Stewardship Code or ask about frequency of voting.