

2024 UK Stewardship Code

The UK Stewardship Code (the “Code”) was published by the Financial Reporting Council. It aims to enhance the quality of engagement between institutional investors and companies to help improve long term returns for shareholders and the efficient exercise of governance responsibilities.

Introduction

The Code is a voluntary code and sets out a number of principles relating to stewardship activities performed by UK investors within invested companies.

Companies that commit to the Code can either comply with it in full or choose not to comply with aspects of the Code, in which case they are required to explain their non-compliance. Although EFGAM is not a formal signatory to the Code it supports the objectives that underpin the Code and believes that shareholder engagement is effective and works in the best interest of clients to improve long-term returns in the companies in which EFGAM invests on behalf of its clients. The Code sets out twelve principles which are detailed below, together with an explanation as to the extent to which EFGAM complies with them.

EFG Asset Management (UK) Limited (“EFGAM”) is a provider of actively managed investment products and services to professional advisors and institutional investors around the world. Its key clients are EFG Private Bank Limited (“EFGPB”) and the New Capital Fund range.

EFGAM invests in a broad variety of assets that include but are not limited to equities, corporate and sovereign bonds, convertible bonds, funds, ETFs etc. Voting activities are performed only with reference to New Capital equity funds that, according to market conditions, usually represent between 10%-15% of its assets. When engagement activities are performed, they originate within New Capital fund investments, but also benefit discretionary mandate investments.

EFGPB is part of the EFG Group, a global private banking group offering private banking and asset management services, headquartered in Zurich. EFGPB delegates management of its discretionary portfolios to EFGAM. EFGAM has also been appointed as the investment manager of the New Capital fund range.

Principle 1 – “Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities”.

EFGAM believes that sound corporate governance creates a framework within which a company can be managed in the best interests of its shareholders.

EFGAM delivers intelligent strategies for thoughtful investors. Research lies at the heart of the EFGAM investment approach. All of its investment decisions are informed by its own research and market analysis and it looks for long-term trends and the value to be found in them. Macro-economic considerations, company financials and ESG analysis are all part of EFGAM's extensive proprietary research that informs its investment decision-making.

EFGPB has not delegated voting to EFGAM but takes instruction from its clients on a case-by-case basis. In relation to funds managed on behalf of New Capital, EFGAM has engaged the services of Institutional Shareholders Services (“ISS”), a leading provider of corporate governance advisory and proxy voting services, to provide additional research on individual companies for which EFGAM is eligible to vote.

EFGAM asks ISS to apply a climate overlay to the recommendations they send but can overrule suggestions should they contrast with EFGAM's voting policy or investment beliefs. This selective approach balances the need for both the robust disclosure of climate-related risks with the analysis of a company's performance across a number of key criteria, such as its greenhouse gas (GHG) emissions, climate strategy and the impact of its climate-related measures. These criteria are also considered in the context of each company's sector and incident-based climate risk exposure. EFGAM has the right to change a vote from the ISS recommendation and has up to the deadline set by ISS to have a vote changed.

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”.

EFGAM has a Conflicts of Interest Policy. This policy highlights that EFGAM is required to take all reasonable steps

to identify and manage conflicts of interests which could have a detrimental effect on customers to whom it provides a service. This applies to conflicts that arise in the context of the exercising of EFGAM's stewardship responsibilities or when voting its client's' shares. EFGAM has a conflict of interests log that is maintained and reviewed periodically in line with its Conflicts of Interest Policy.

In the event of a conflict of interest arising in the performance of its fiduciary responsibilities, and in particular in relation to the stewardship activities described by the Code, the matter will be referred to the relevant Head of Compliance, to ensure that EFGAM will always act in the best interests of its clients. Additionally, should a fund manager wish to overrule a suggestion from the ISS Climate Voting Policy, then the Head of Sustainable Investing has to also approve the decision.

Principle 3 – “Institutional investors should monitor their investee companies”.

EFGAM conducts research that informs investment decision-making and active stewardship practices which aims to increase its clients' long-term financial returns and performance.

EFGAM performs primary research of macro-economic strategy, equities, bonds and third-party funds in support of New Capital. Each research area uses its own structured due diligence process, typically a combination of quantitative techniques and subjective analysis integrating ESG risks. This might, on occasion, be augmented with research from third parties.

EFGAM manages its relationship with investee companies in such a way that it does not expect to be made an “insider” and would not expect to be made an “insider” at any meeting or industry event as this may affect its commitment to protecting and enhancing shareholder value.

Principle 4 – “Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities”.

EFGAM has the ambition to meet the highest practicable standards of corporate responsibility in its own operations.

Engagement involves regular discussions with the management of companies on a range of topics including the company's strategy, operational performance, acquisition and disposal strategy, executive/board performance, management of ESG issues and drivers of risk and reward.

EFGAM meets with over 500 companies a year, discusses strategy with senior management and provides honest feedback and guidance to help develop the companies' strategies. EFGAM also performs ESG related engagement activities in line with its Engagement Policy both directly and through collective engagements. Stewardship activities usually start as conference calls or in-person meetings. Different levels of incisiveness may develop throughout the procedure – from a simple expression of concern to voting against the management at AGM to an exclusion from the investable universe, depending on how the dialogue evolves.

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

Where considered appropriate, permitted by regulation and law and believed to be in the interests of its clients, EFGAM acts with other shareholders or participates in collective engagement activities.

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

In relation to New Capital, it is the policy to vote at all companies in which there are equity holdings, unless there are material impediments to voting (for example, share blocking which prevents the trading of shares which are voted or shares that are subject to security lending programmes).

EFGAM has its own voting policy and for New Capital holdings, ISS makes all voting recommendations following the Climate Voting Policy it subscribes to. However, the ultimate voting decision remains the responsibility of EFGAM, which can overrule ISS suggestions. Voting records are available to clients on request and highlighted in an aggregated format which is contained within EFGAM's Engagement Report.

EFGPB takes instruction from its clients on a case-by-case basis.

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

Unless required by law, EFGAM does not disclose publicly how its proxies are voted. However, it does offer its clients the ability to request vote reports.

Principle 8 – “Signatories monitor and hold to account managers and/or service providers”.

EFG's Fund Selection team conducts due diligence on every fund on its approved list, and refreshes its opinions periodically as part of the monitoring procedure. The assessment includes scrutiny of the product's ESG credentials, and the team exercise judgement to assign proprietary ESG ratings to every fund on the approved list.

EFGAM set up a Research Committee that is tasked to monitor and define how to select research providers and how to allocate the research budget to different research providers. To inform its decision the Committee uses a tool that enables the Committee to collect feedback from all research users based on the perceived quality and usefulness of the research they receive and on the quality of interactions, conferences, and meetings. With respect to ESG data, sanity checks on its quality are performed quarterly with respect to indicators such as GHG, water and waste numbers.

Principle 9 – “Signatories engage with issuers to maintain or enhance the value of assets”.

As highlighted previously the investment teams at EFGAM hold around 500 meetings a year with companies to better understand their strategy and provide feedback. Most of the meetings focus predominantly on financial, governance and strategic aspects often including ESG risks and opportunities. However, EFGAM also runs specific ESG engagements which are aimed at increasing ESG disclosure, pushing companies to mitigate their externalities and to implement better risk appetite models and climate transition plans. EFGAM believes these efforts are part of its fiduciary duties and can also increase the value of investment by reducing their risks or increasing the investor base. For more details, please see EFGAM's engagement report which is available at: <https://www.efginternational.com/ch/asset-management/responsible-investing>.

Principle 10 – “Signatories, where necessary, participate in collaborative engagement to influence issuers”.

EFGAM is part of multiple initiatives and conducts collaborative engagement in partnership with Climate 100+ initiative, FAIRR, CERES, Access to Medicine and others.

Principle 11 – “Signatories, where necessary, escalate stewardship activities to influence issuers”.

EFGAM has limited power to influence issuers but in roughly 10% of cases it decided to vote against management proposals due, for example, to lack of independence in the board or lack of detailed information on specific proposed transactions. In other cases, EFGAM had to threaten divestment in order to be heard by companies and start a dialogue.

Principle 12 – “Signatories actively exercise their rights and responsibilities”.

EFGAM has its own voting policy and for New Capital holdings, ISS makes all voting recommendations following the Climate Voting Policy it subscribes to. However, the ultimate voting decision remains the responsibility of EFGAM, which can overrule ISS suggestions. Considering the Climate Voting policy is demanding in terms of sustainability and

climate behaviour, the occasions in which EFGAM has had to overrule ISS suggestions have been limited. Voting records are available to clients on request and highlighted in an aggregated format in EFGAM’s Engagement Report.

Whilst EFGAM has set up a lending policy, it can recall shares for voting and set up limits to keep certain voting rights in every security across funds.

Besides its voting approach, EFGAM defines expectations for companies based on their transparency, behaviour, and involvement in certain activities. It is EFGAM’s policy not to invest in companies with an ESG score below 25% (calculated within its internal framework), that are involved in controversial weapons or that have coal exposure higher than 20% of revenues unless they have credible commitments to reduce such activity.

