

## **Shareholder Engagement Policy under the Shareholder Rights Directive II**

### **Introduction**

The Shareholder Rights Directive II (SRD II) aims to promote effective stewardship and long-term investment decision-making by enhancing the transparency of asset managers' investment strategies. This document sets out Sanford DeLand's engagement policy in line with those requirements. Specifically, it outlines how Sanford DeLand:

- (1) integrates shareholder engagement in its investment strategy;
- (2) monitors investee companies on relevant matters, including:
  - (a) strategy;
  - (b) financial and non-financial performance and risk;
  - (c) capital structure; and
  - (d) social and environmental impact and corporate governance;
- (3) conducts dialogues with investee companies;
- (4) exercises voting rights and other rights attached to shares;
- (5) cooperates with other shareholders;
- (6) communicates with relevant stakeholders of the investee companies; and
- (7) manages actual and potential conflicts of interests in relation to the firm's engagement.

In addition, we are required to make an annual disclosure on how we have applied the policy. For details of this, please see our website at [www.sanford-deland.com/stewardship](http://www.sanford-deland.com/stewardship) which provides data on our voting activity.

### **Overarching principles**

Sanford DeLand Asset Management Limited is a long-term active fund management company that uses proprietary investment processes to identify and hold companies for our investors for the long term. As at 31 July 2020, the implied average investment holding period in a company in our flagship CFP SDL UK Buffettology Fund was more than 25 years. Investing in companies over the long term emphasises the need for good governance and stewardship which we view as an important part of creating shareholder value.

Our primary objective is to deliver investment performance for our investors with appropriate levels of risk and in order to do so we seek a fundamental understanding of not only the companies in which we invest but also their markets and competitive landscape. The fundamental principle of our corporate governance policy is to protect and increase the investments of our clients. In any situation, our actions will always be determined by this principle.

**(1) integrates shareholder engagement in its investment strategy**

When deciding to invest in a new portfolio holding, SDL undertakes an in-depth “deep dive” into the company, its markets and the competitive landscape. This includes a combination of desktop research, proprietary modelling and analysis of the company’s historic and expected underlying returns as well as company site visits and meetings with management. Engagement with investee companies generally takes place long before an investment is made and is fundamental to our investment process.

**(2) monitors investee companies on relevant matters, including: (a) strategy; (b) financial and non-financial performance and risk; (c) capital structure; and (d) social and environmental impact and corporate governance**

All existing portfolio companies are monitored regularly for their performance, both financially and operationally, against our expectations. This is through a combination of annual or interim results presentations as well as more ad-hoc company trading updates, acquisitions/disposals and fundraises. It is usual for us to hold routine interactions with company management at least once a year in addition to any ad-hoc dialogues as required. In particular, we look at how the strategic decisions of management are adding long-term shareholder value; whether the capital structure of the business is suitable (be that where there is too much net debt or cash); and Board composition and remuneration to ensure it has diversification of skill sets and experience and salaries are appropriate. We prefer to invest in companies where management’s interests are aligned with those of shareholders.

**(3) conducts dialogues with investee companies**

We believe there should be a regular dialogue between company management and shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. As a minimum, the Board should use the AGM to communicate with investors and to encourage dialogue.

It is usual for us to hold routine interactions with company management at least once a year in addition to ad-hoc dialogues as required. These can take the form of one-on-one meetings, telephone or video calls or as part of group presentations. Sanford DeLand keeps an internal record of the key points of all such interactions. Sanford DeLand is from time to time approached directly by the management of investee companies as a sounding board for potential M&A, feedback on performance and views on remuneration policy, among others.

Where Sanford DeLand has any specific concerns about aspects of a company’s strategy, performance, governance, remuneration, or approach to risks, we will look to raise these concerns directly with company management. If it is felt that a constructive or transparent response is not forthcoming, we may choose to hold further meetings with management to address these concerns; make our view known to the company’s broker, financial adviser or other advisers, arrange to speak with the chairman, senior independent director, or other independent directors. Ultimately, where concerns have not been addressed, we may choose to sell our interest in the company.

**(4) exercises voting rights and other rights attached to shares;**

Sanford DeLand, by default, chooses not to exercise its vote where it has an insignificant proportion of the voting rights. However, Sanford DeLand will exercise its vote where it feels there is a specific reason to do so. When deciding this, we give due consideration to the company's recent operating performance against our expectations together with Board governance including the directors' remuneration policy, among other factors.

We will consider supporting non-binding shareholder resolutions where the broad purpose of the proposal is aligned with our policy views, addresses an area where improvement would be welcome. For binding resolutions the proposal must be proportionate, in shareholder interests, focused on improving the reputation and quality of a company's operations and practices, as well as being aligned with our policy objectives and best practice.

Where there are any specific concerns as per (3) above, we will consider abstaining or voting against the management in several ways including:

- Voting on annual report and accounts – We may abstain or vote against the annual report and accounts where we have identified concerns over lack of disclosure or poor quality of reporting;
- Voting on directors – Where significant issues have arisen, we may abstain or vote against the re-election of relevant directors or, where applicable, the discharge of the Board(s). We expect companies to be fully transparent and to adhere to best practice in producing information on votes and in related activities. All proposals should have adequate information available to enable an informed decision. Proposals should not limit or reduce shareholder rights and should ensure equal treatment of all shareholders.

Under SRD II, we are required to disclose our voting record annually. This can be found at our website [www.sanford-deland.com/stewardship](http://www.sanford-deland.com/stewardship).

We use Broadridge ProxyEdge® for voting and record keeping. We do not employ the services of a proxy adviser.

**(5) cooperates with other shareholders**

Sanford DeLand has not historically consulted with other shareholders in relation to its investee companies but is open to working collaboratively where it is deemed in the best interests of the company. In particular, such occasion may occur where a company has materially changed strategy without prior warning; where performance consistently falls below expectation; where remuneration is thought to be excessive; or where M&A is being pursued without due concern for shareholder value.

**(6) communicates with relevant stakeholders of the investee companies**

As part of its obligations under SRD II, Sanford DeLand publishes an annual statement of its voting record which is accessible by all stakeholders.

**(7) manages actual and potential conflicts of interests in relation to the firm's engagement**

Although Sanford DeLand's Business Perspective Investment policy applies across all its funds, a potential conflict of interest could arise where different fund managers within Sanford DeLand have different views on the strategy or performance of companies held in common. In that instance, it is possible they may wish to vote their entitlements differently. Where this is the case, the vote will be

split in proportion to the relevant underlying holdings in the portfolios as at the record date for entitlement to vote.

Where there is difference of opinion it will ultimately be the responsibility of the Chief Investment Officer to adjudicate on such matters except where the Chief Investment Officer is party to the potential conflict. In this instance the Chief Executive Officer will adjudicate and this will be recorded on the Annual Voting Record for the period concerned.

To prevent the risk of damage to investors' interests as a result of any such conflict, we have in place various organisational and administrative arrangements to deal with potential conflicts, disclosed in our Conflicts of Interest policy. All employees are required to declare any conflicts of interest, including those which may arise as a result of engagement.