



## **The UK Stewardship Code**

Talomon Capital Limited (Talomon) is an asset manager, which advises on and manages assets for a select group of professional clients.

Talomon welcomes the publication by the Financial Reporting Council ('FRC') of the UK Stewardship Code. The Code aims to enhance the quality of engagement between institutional investors and companies so as to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies and should be applied by firms on a 'comply or explain' basis. The FRC recognises that not all parts of the Code will be relevant to all institutional investors, while smaller institutions may judge that some of its principles and guidance are disproportionate in their case.

Talomon manages regulated and unregulated collective investment schemes and individual managed accounts on a common investment strategy based on a consistent, longer - term investment approach. As the firm takes a longer-term views of companies, the investment thesis on which Talomon invested can be affected by various issues of governance in which shareholders can have a say.

As a result, Talomon will keep governance matters for the firms in which its accounts invest under review in line with the relevant investment thesis for each stock with the aim of delivering sustainable investment growth over the medium to long term. On this basis, Talomon will decide on a case by case basis whether to exercise its voting rights accordingly

Please find below Talomon's statement of compliance in relation to the seven principles of the Code. Talomon also subscribes to the UN's principles for responsible investment (Environmental, Social and Governance (ESG) and Responsible Investment (RI)) which are generally consistent with Talomon's Stewardship Code.

### **Principle 1**

#### **Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities**

Talomon acts as an agent on behalf of its clients, and as such is not the beneficial owner of the investee company's shares. Only upon authorisation by Talomon's clients are voting decisions made on their behalf. Talomon considers the corporate governance of any investee company as part of the overall assessment prior to and during the investment process. Talomon exercises voting rights arising from shareholdings when it is in its clients' interests to do so.

This policy is published so that investors and investee companies are aware of the way in which Talomon integrates stewardship activities into its investment process. Talomon has outlined in this statement each of the principles of the Code and how it complies with them or explains why it does not.

Engagement with investee companies is primarily the responsibility of the investment team and the Chief Investment Officer Jussi Nyrola. Talomon has a policy of periodic monitoring of, and engagement with, firms and their management. Talomon may seek to meet with management outside of this cycle to discuss issues it believes may adversely affect the value or prospects of the core investment position. Talomon is unlikely to invest in companies where it appears that management is not acting in the best interests of shareholders, though it may short those securities or vote (where it has an existing holding) in order to encourage management to act in the best interests of shareholders. As a subscriber to the UN Responsible Investment principles investment decisions are thoroughly researched by the investment team and agreed by the investment committee with governance/stewardship and stakeholder rights being central to the decision-making process.

In terms of proxy voting, the firm will generally vote in line with the following guidelines:

- The firm will generally support the management of the issuer if the firm view of the management is favourable;
- The firm will generally vote to change the management structure of the issuer if such a change would increase shareholder value;
- The firm will generally vote against management if there is a clear conflict between the management and shareholder interests;
- The firm will generally abstain from voting where the cost of voting exceeds the calculated benefit to investors.

In terms of process, the portfolio manager will assess and determine the voting strategy and instruct the COO and the CCO to affect the decision. The CCO maintains the record of proxy voting and all voting decisions with regard to each proxy and any supporting documents that were material to making the decision.

## **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**

As an asset manager, we have an obligation to manage conflicts of interest fairly, whether they arise between Talomon/its staff and clients, or between individual clients of Talomon. Accordingly, we have a robust policy on how we manage any conflicts of interest, in accordance with existing FCA rules. This policy aims to ensure that all staff are aware of their individual and collective responsibilities with regard to conflicts of interest and the consequences of failing to manage them appropriately.

We maintain an up to date and robust conflicts of interest register. This identifies various potential conflicts which may arise in the context of our business, and outlines the conflict mitigants we have in

place. Staff receive periodic training regarding their obligations vis-à-vis the disclosure and managing of conflicts of interest.

Both the Policy and the Register form part of our Compliance Manual, which is reviewed and updated at least annually by our Compliance Officer, with support from external compliance consultants.

Potential conflicts that are addressed in the Policy and Register include, but are not limited to, the following:

- Personal account trading by staff in securities which are also traded for clients
- Allocation of transactions and investment opportunities between clients
- Favours certain trading counterparties over others
- Inappropriate handling of sensitive or confidential information
- Overstating or otherwise unfairly influencing the valuation of securities in our clients' portfolios
- Taking/not taking sufficient action to rectify pricing and other valuation errors where to do so would have a negative impact on the value of the portfolio
- Having clear policies and procedures for handling trade error
- Implementing a valuation policy, or deviating from it in a way that impacts the fair value of the portfolio
- Staff being influenced by inducement and other forms of gifts or entertainment
- Remuneration structures being at odds with Talomon's regulatory obligations or obligations to clients
- Responsibilities being ineffectively apportioned, or staff be inadequately supervised
- Staff who have outside commitments (such as directorships or other business interests) may be influenced to act in a manner that conflicts with the interests of clients

Talomon run collective investment vehicles and managed accounts to a common strategy (as far as permitted by additional restrictions e.g. UCITS spread and concentration requirements) so as to minimise potential conflicts between the funds.

Talomon's ownership structure is straightforward and poses no obvious conflicts. We have no broker/dealer affiliates, do not trade securities for our own account and are not under the control of another financial services entity.

A copy of our full policy is available on request from the Compliance Officer.

### **Principle 3**

#### **Institutional investors should monitor their investee companies**

As part of its commitment to manage assets on behalf of its clients, Talomon continually researches and monitors its investee companies. We are long term investors and regularly review publicly available information on all investee companies (such as published accounts and press reports), as well as third party investment research and industry / peer group comparison. Our research activities focus on the fundamental economic strength, sector positioning and sustainability of the company and how this fits

in with our clients' investment objectives. These issues are monitored through in-house research and company and analyst engagement.

In addition to the internal research we conduct, we also meet with the management of investee companies on a regular basis to understand their performance and its drivers. Where appropriate we will attend shareholder meetings and we use company compliance with UK Governance Codes as one of our indicators as to the sustainability of a company. We compare the quality of a company's reporting with our own proprietary research as an indicator of the sustainability and transparency of the company.

As described above, this monitoring takes place regularly and is checked periodically for effectiveness.

We endeavour to identify at an early stage issues that may result in a significant loss in investment value. If our analysts have concerns, they contact the company to discuss these.

In normal circumstances, we do not wish to be made insiders. We expect investee companies and their advisers not to convey information to use that could affect our ability to deal in the shares of the company, without prior agreement.

#### **Principle 4**

##### **Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value**

Talomon manages regulated and unregulated collective investment schemes and managed accounts to a common strategy, and we take longer term views of companies which will naturally be affected by issues of governance in which shareholders can have a say. Talomon typically invests in companies that we believe to be well managed, and we aim to build effective relationships with the companies in which we invest. Engagement with company management is an important part of our investment process and escalation would be a natural extension of this approach where there to be issues of concern.

If we have concerns about a specific issue, we enter into an active dialogue with the company, either directly or, more rarely, collectively with other shareholders. Where dialogue proves unfruitful we are likely to vote against the management position.

If following active dialogue with the company up to the highest level, we still have concerns, we then escalate our activities to include voting against the management's position or, in exceptional circumstances and where there is a cost-benefit to our clients, we may attempt to convene an EGM or similar process.

Our holdings in any company are unlikely to be so large as to enable us to impose a new Board member and we only act collectively with other investors where it is overridingly in the interests of our clients to do so. Records are maintained of all our decisions in this regard.

## **Principle 5**

### **Institutional investors should be willing to act collectively with other investors where appropriate**

Talomon prefers to research and engage with companies independently. However, Talomon will consider acting collectively with other institutional investors in the event it believes such collective action would best serve its clients. We consider each issue on an individual basis, subject to legal restraints, regulatory restraints, company strategy or governance. We are most likely to act collectively on issues concerning management acting illegally or negligently so as to be a potentially material risk to the value or prospects of our clients' investments or the future viability of the company. In undertaking any collective engagement with a company, Talomon will adhere to all relevant regulations concerning acting in concert and use of non-public information.

Talomon is also prepared to be bound by any restrictions on its freedom to act as any consequence arising from an engagement in a collective group.

Note that we have not collaborated with other shareholders to date and we are unlikely to join public, high profile campaigns.

Investors interested in contacting Talomon with a view to collaboration should contact:

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## **Principle 6**

### **Institutional investors should have a clear policy on voting and disclosure of voting activity**

Talomon votes its shares where it is in its clients' interests to do so and will vote in a manner which supports the interests of its clients who are the shareholders in the investee company

As Talomon acts as an agent for its clients' assets, any voting record is available to its clients either via their custodian or directly from Talomon. Talomon does not publicly disclose voting records as it believes such information is confidential to its clients.

Where Talomon cannot come to a satisfactory conclusion through dialogue with management, it will vote against its proposals and consider disinvestment if matters appear as though they will deteriorate.

Talomon does not use any proxy voting or advisory services.

The only stock Talomon may have on loan will be any securities held by its Prime Broker. The Prime Broker has the right to rehypothecate these securities (subject to various conditions) and, as such, these could not be recalled for voting.

## **Principle 7**

### **Institutional investors should report periodically on their stewardship and voting activities**

Subject to underlying client confidentiality and investment strategy reasons, where requested (or as required by law), Talomon may disclose to a client (i.e. a segregated managed account or the governing body of a pooled fund) or a client's fiduciaries the manner in which Talomon exercised voting rights on behalf of the client. The information reported, frequency and format used will be as agreed between Talomon and the respective client.

Where acting as investment manager to a pooled fund, Talomon will not typically disclose voting actions at a detailed level to the underlying investors in the pooled fund as this may result in inappropriate disclosure of confidential and sensitive portfolio position information. However, on request, Talomon may provide to such underlying investors summary details of how it has voted (i.e. with company names redacted).

In addition, Talomon may, on request, provide other details of its engagement approach and activities (such as number of company meetings held or examples of any concerns raised) to clients and underlying investors. It is not Talomon's policy to publicly disclose such records.

Talomon believes that this is an appropriate level of transparency designed to promote effective stewardship and assist evaluation by asset owners, whilst recognising that disclosure of confidential portfolio information (including as mentioned above) may, in some circumstances, be inappropriate and counterproductive.

Talomon's processes relating to its corporate governance activities are included within the scope of annual internal controls testing performed by an independent accounting firm which Talomon has engaged to perform an outsourced internal audit function. The results of such testing are not generally made available but clients wishing to obtain further information should contact Talomon's Chief Compliance Officer. We believe this is an appropriate level of independent assurance.

Talomon's stewardship statement is reviewed annually. Talomon also reviews its stewardship statement when the FRC makes changes to the Code. This statement was last updated in July 2018.