



# Smith & Williamson Investment (Ireland) Limited

30 March 2020

## Shareholder Rights Directive II - Engagement Policy

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## 1. Scope

This document applies to Smith and Williamson Investment Management (Ireland) Limited (“SWIMIL”) in relation to its authorised and regulated collective investment scheme; Smith and Williamson Investment Funds Plc (“the Fund”) and its sub-funds.

The Fund is domiciled in Ireland and authorised by its home state regulator; the Central Bank of Ireland (“CBI”) as an EEA UCITS scheme. The Fund is an open-ended umbrella Investment Company, with variable capital, which is an Undertakings for the Collective Investment in Transferable Securities (UCITS) under the (UCITS) Regulations 2011 (S.I. No. 352 of 2011). The Fund is an umbrella fund of 11 UCITS Investment Company Sub-Funds (“sub-funds”) which have also been authorised by the CBI as UCITS schemes.

The Fund and its sub-funds can avail of passporting rights by virtue of passporting rights under the UCITS Regulations to market and sell shares in the Fund and its sub-funds into the EU, subject to notification requirements with the host state regulators. The Fund and its 11 sub-funds are registered for marketing and sales to investors in the United Kingdom (“UK”). The Artificial Intelligence fund (a sub-fund of the Smith and Williamson Investment Funds Plc.) is also passported for distribution purposes into Switzerland and Austria.

SWIMIL is domiciled in the Ireland and is authorised and regulated by the Central Bank of Ireland (“CBI”) as the EEA UCITS Management Company of the Fund and its sub-funds under the (UCITS) Regulations 2011 (S.I. No 352 of 2011). SWIMIL has delegated the responsibility for managing the funds to Smith and Williamson Investment Management LLP (“SWIM”), domiciled in the UK and authorised and regulated by the Financial Conduct Authority.

SWIM manages the investment and reinvestment of the assets of the Fund and its sub-funds on behalf of the UCITS Management Company and reviews, supervises and administers all investments in the Funds and its sub-funds. The Investment Manager is also the distributor of the funds, involving marketing and sales of the Fund and its sub-funds.

## 2. Applicable Regulation

This document sets out SWIMIL’s position in relation to the European Union (Shareholders’ Rights) Regulations 2020 (SRD II Regulations), which has transposed the European Commission Shareholder Rights Directive 2017/828 (amending Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies) (“SRD II”) into Irish law on 20 March 2020 .

The following directive will also apply:

- UCITS Implementing Directive - Commission Directive (2010/43/EU) of the European Parliament and of the Council implementing Directive 2009/65/EC (“UCITS IV”) as regards certain provisions concerning organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company.

## 3. Background

Firms which carry out the investment management activities of investing and managing an investment fund’s assets are duty bound to have robust processes in place, to ensure investments in the assets are managed with the aim of achieving the fund’s investment objective and policy. Not only does this mean ensuring that the fund’s portfolio of assets is invested in a range of assets, which aim to deliver the objective, but also that they remain sufficiently engaged with each individual asset to ensure they continue performing in line with expectations. Furthermore, any matters which arise in connection with the assets must be appropriately considered, and relevant action is taken to ensure the continued investment in the assets results in the best outcome of the fund’s investors.

Firms are required by the SRD II Regulation to have in place adequate and effective processes for determining when and how voting rights attached to the ownership of the assets should be exercised. This will for example include, when appropriate, voting at Annual General Meetings and voting on corporate actions such as mergers, acquisitions, rights issues, dividends and other such matters which impact upon investors or affect their ongoing rights (known collectively as “Corporate Events”).

When managing a Fund and investing in assets, with respect to Corporate Events, the SRD II Regulations require firms to put processes in place to ensure:

- Firms monitor for Corporate Events in relation to assets which it is invested;
- That voting rights are exercised in accordance with the fund’s investment objective and policy; and
- Any conflicts of interest arising from the Corporate Event are appropriately identified and prevented or managed.

As explained earlier, SWIMIL does not carry out investment management activities on behalf of the Fund and its sub-funds and has delegated this activity to a third-party UK investment management company; SWIM. SWIMIL carries out appropriate ongoing monitoring and due diligence on SWIM to ensure it able to meet their regulatory obligations. Please refer to section 5 for more information on SWIMIL’s ongoing monitoring and oversight of SWIM.

## 4. Shareholder Rights Directive

SRD II is one of a series of actions launched by the European Commission to promote better shareholder engagement and improve transparency in the ownership of companies. The key SRD II requirement on firms is to have appropriate ongoing engagement with their investee companies, which issue shares to be traded on a regulated market. It follows the European Commission’s analysis of shortcomings in corporate governance during the financial crisis, which highlighted insufficient engagement by shareholders with investee companies as a key deficiency. As such the new SRD II Regulations implemented into Irish Law requires asset owners of investee companies and asset managers to make disclosures about their long term investment strategies, their arrangements with each other and their engagement with the companies they invest in.

The SRD Regulations requires firms to make publicly available an Engagement Policy which describes how the firm:

- integrates shareholder engagement in its investment strategy;
- monitors investee companies on relevant matters, including:
  - Strategy;
  - Financial and non-financial performance and risk;
  - Capital structure; and
  - Social and environmental impact and corporate governance;
- Conducts dialogues with investee companies;
- Exercises voting rights and other rights attached to shares;
- Cooperates with other shareholders;
- Communicates with relevant stakeholders of the investee companies; and
- Manages actual and potential conflicts of interests in relation to the firm’s engagement.

In addition to the above, the SRD Regulations also require a firm to make publicly available an annual disclosure, which must include:

- A general description of voting behaviour, an explanation of the most significant votes and reporting on the use of the services of proxy advisors.
- How it has cast votes in the general meetings of companies in which it holds shares (except for votes that are insignificant due to the subject matter of the vote or the size of the holding in the company).

The above requirements only apply to the extent which a firm invests in shares which are traded on regulated markets.

Since the investment management activity of investing in shares of companies traded on a regulated market for the Fund and its sub-funds has been delegated by SWIMIL to third party investment manager - SWIM, SWIMIL as the UCITS Management Company will ensure that SWIM has implemented appropriate processes and controls to comply with the SRD Regulations where these apply. SWIMIL will oversee the implementation of the SRD Regulation by SWIM as part of the ongoing oversight and monitoring outlined in Section 5 below.

## 5. Delegation of Investment Management

As explained earlier, SWIMIL is the EEA UCITS Management Company of the UCITS Funds and its sub-funds. The assets that these funds are invested in by SWIM, must be invested in accordance with the Funds' investment objectives and policies, with the ultimate goal of achieving the Funds' investment objectives. Although SWIMIL delegates the investment management activity of the Fund and its sub-funds to SWIM, it does not delegate the overall responsibility for the Fund's and its sub-funds adherence with the applicable regulations and legislations; therefore SWIMIL maintains robust oversight over the activities of the Fund and its sub-funds and the delegated investment management firm - SWIM.

Where a delegate investment management firm has been appointed by SWIMIL to undertake the investment management activity for a Fund and its sub-funds, SWIMIL is required to ensure that the delegated firm has robust systems, processes and controls in place to carry out the activities which they have been appointed to undertake. To fulfil this obligation, SWIMIL maintains a comprehensive risk oversight, compliance monitoring and due diligence programme, along with highly experienced staff that conducts a full review of the delegated investment manager on at least an annual basis.

Specifically, in relation to Corporate Events, the reviews of delegated investment manager must include ensuring that the firm has an appropriate:

1. Engagement (and Voting) Policy;
2. Processes for the monitoring of Corporate Events;
3. Processes for appropriate consideration of Corporate Events;
4. Systems and controls to ensure accurate and timely submission of voting decisions;
5. Maintenance of suitable records of decisions on which it has voted;
6. Processes for how the firm prioritises its engagements with issuers,
7. Processes for exercising oversight and challenge and how it holds issuers of shares in companies to account.
8. Conflicts of Interest Policy;
9. Controls for the identification, management and recording of conflicts of interest; and, where shares are held,
10. Processes for appropriate monitoring and engagement with investee companies; and
11. Makes relevant disclosures on its engagement and voting on an annual basis.

Since the responsibility for investment management has been delegated, voting decisions made on Corporate Events will be made by the delegated investment manager - SWIM, in accordance with SWIM's own SRD II Engagement Policy.

## 6. Position of SWIMIL with respect to SRD Regulations

As mentioned in sections 1, 4 and 5 above, since SWIMIL does not carry out investment management for the Fund and its sub-funds, does not invest in assets such as shares of companies traded on a regulated market and such activities are delegated to the investment manager - SWIM, SWIMIL relies on the SRD II Engagement Policy of the investment manager.

SWIMIL expects the SRD II engagement policy of the delegated investment management firm - SWIM to be in accordance with the requirements of the European Union (Shareholders' Rights) Regulations 2020 (SRD II Regulations) and the European Commission Shareholder Rights Directive 2017/828 and to publish an annual disclosure on how they have implemented and met the objectives of their engagement policy.

### **Important Information**

The content of this document is for information purposes only. The information contained within this document is valid as at 30 March 2020 and does not constitute legal advice of any nature. Whilst Smith and Williamson Investment Management (Ireland) Limited ("SWIMIL") takes all reasonable steps to ensure that the information contained within this document is accurate and up to date, no warranty, express or implied, is given as to its accuracy and SWIMIL does not accept any liability for any errors or omissions. SWIMIL shall not be liable for any damage (including, without limitation, damage for loss of business or loss of profits) arising in contract, tort or otherwise from the use of, reliance upon, or from any action or decision taken as a result of using the contents of this document.