Statement on the UK Stewardship Code

January 2017

This document offers a summary of how RWC applies the UK Stewardship Code as an asset manager.

General Comments

RWC supports the introduction of the UK Stewardship Code for institutional investors, as well as the recommendations of the Kay Review. We believe that these principles, when faithfully applied by a critical mass of institutional investors, will enhance board and management accountability in public companies and therefore realise the over-arching objective of improving long-term returns to shareholders. Although the Stewardship Code relates specifically to the UK, RWC seeks to apply the same principles in its overseas investments.

The firm is an independent investment partnership and has a business model that is aimed at alignment with clients, long-term stability and maintaining a high level of professionalism of its investment teams. This is under-pinned by an ownership structure based on employee share ownership to solidify the long term commitment of the people working in the firm. Furthermore, RWC's investment teams co-invest alongside clients, creating a natural alignment of interest. RWC's business model is focused on hiring and retaining experienced and accomplished fund managers and to create an environment where they are free from artificial restrictions, well supported and able to focus on investment returns.

RWC has a decentralised approach where its investment teams have a high degree of autonomy with regards to their investment process. RWC has a decentralised approach where its investment teams have a high degree of autonomy with regards to their investment process and, as such, the approach adopted by each investment team may differ accordingly.

Special reference should be made to RWC's Active Ownership and Engagement Strategies: the RWC European Focus Fund, RWC Specialist UK Focus Fund, RWC Nissay Japan Focus Fund, and Japanese Stewardship Fund. These funds all have an investment approach that puts stewardship and shareholder engagement at the core of their investment strategy (a separate addendum to this document is available which discusses the stewardship approach of some of these funds).

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

RWC publishes its stewardship and voting policy on its website and reports where appropriate specific stewardship activities towards it clients.

RWC believes that companies should have as their objective to optimise shareholder value in a sustainable manner. Given that RWC's primary goal is to achieve superior long term returns, in line with the mandate received from its clients, it believes that acting as responsible owners of companies is key to preserve and create value for its clients. Actively engaging with companies is crucial to achieve the necessary alignment between principal and agent and to ensure that companies will maximize of shareholder wealth on a sustainable basis. Shareholders are the ultimate owners of companies and it is central to our investment process to question and challenge companies in case there are issues that may affect their ability to produce sustainable returns.

Actively voting the shares we manage on behalf of clients, as well as active engagement with companies when and where appropriate, is integral to our investment process. As a general policy we are supportive of the management of the companies in which we invest. Engagement on issues affecting a company's value may include governance related topics, including non-executive and executive Board composition, remuneration, shareholder rights, as well as other topics that can affect a company's value including strategy and capital allocation, operational excellence, capital structure and the company's interaction with the capital markets. Engagement, by way of constructive dialogue, will generally be private and the issues being raised are discussed with the directors of the company, financial and legal advisers, fellow shareholders and RWC's clients

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

RWC has a simple business model and dealing in investments is only undertaken on behalf of our clients. The firm does not deal in investments on its own account. In addition RWC has deliberately maintained an independent ownership structure and this further minimises possible conflicts of interest. The firm is authorised and regulated by the Financial Conduct Authority and is required to take all reasonable steps to identify conflicts of interest that may give rise to a material risk of damage to the interests of our clients. RWC has developed a policy to help us manage conflicts of interest should they arise and this is available on request.

Specifically, conflicts of interest in relation to stewardship may arise with regard to voting at AGM/EGM or when being a permanent ‘insider' at a company. The RWC policy is generally not to take Board seats in the companies in which it invests for two principal reasons. Firstly, Board representation would make RWC a near permanent insider and this might prevent timely trading in a stock. Secondly, being on a Board may be an obstacle to collaborating with other shareholders who may assume we are an insider (whether or not this is in fact the case) and that we have a vested interest by virtue of having a seat on the Board, which consequently may hamper us being involved in collective action. As such, taking Board seats may limit RWC in some aspects of its investment process, and will only be pursued in exceptional circumstances.

Principle 3: Institutional investors should monitor their investee companies

Share interests carry ownership rights and exercising those rights is an integral part of the RWC investment processes. Our objective is to enhance returns for clients. On-going monitoring of investee companies is a critical part of the process.

As part of the daily routine, RWC fund managers monitor company announcements, selected stockbroker research, interact with other specialists and review press commentary relevant to all of the companies in which they invest in order to ensure that the investment thesis remains intact.

When clarification or further information is required a fund manager may arrange a meeting/telephone conversation with company executives, analysts or the company’s adviser. These meetings/telephone calls may focus on results, strategy, corporate governance issues or performance. If necessary a fund manager can be made an insider but approval of the RWC compliance officer is required. The detailed rules of this process are available on request.

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

If we believe shareholder value is being threatened we may directly challenge a board to take action unless we consider it in the best interests of investors to sell the position. We will always act in clients’ best interests.

Actions to challenge a board vary across the strategies within RWC but may include constructive dialogue and engagement with the directors of an investee company, communication through the company’s advisers, joint intervention with other shareholders, and voting against board proposals..

At all times RWC aims to be pragmatic and long-term in the way we exercise ownership rights and recognises that the ability to influence is directly related to the proportion of equity held, unless collective action is taken (see 5 below).

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

RWC is open to and willing to work collectively with other shareholders, where appropriate, to bring more ownership weight to bear in the dialogue with companies. RWC supports the Kay recommendation in this regard as collective action by a critical mass of institutional investors will enhance board and management accountability in public companies and therefore realise the over-arching objective of improving long-term returns to shareholders.

Collective action may involve sharing views, ideas and possible joint actions with other institutions and shareholders/stakeholders. This is always done in accordance with RWC conflicts of interest policy and with applicable regulations and codes such as the Market Abuse Directive and the Takeover Code.

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

RWC's investment and voting decisions are always taken in the best interests of clients and is performed in accordance with the "RWC Proxy Voting Policy". All RWC strategies, where appropriate, report voting activities to their clients.

The AGM and EGM serve a critical purpose by reinforcing a Board's accountability to its shareholders and RWC recognises that as an asset manager it is critical that it uses voting as part of its objective of improving long-term returns. Consequently, and depending on the specific approach, most of RWC's investment teams consider the exercise of voting rights to be an integral part of their investment process.

Institutional Shareholder Services (ISS) has been appointed as agent to facilitate exercising RWC's voting activity. ISS provides RWC with proprietary research and advice on each relevant resolution of an AGM or EGM. RWC will depart from their advice when needed to protect the interests of its clients. A vote 'against' will typically be preceded by open dialogue with the company.

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

RWC has a preference for a private and constructive dialogue with companies. When appropriate, RWC reports its stewardship and voting activities to its clients in its monthly and quarterly client communications.

Important Information and Disclaimers

RWC may act as investment manager or adviser, or otherwise provide services, to more than one product pursuing a similar investment strategy or focus to the product detailed in this document. RWC seeks to minimise any conflicts of interest, and endeavours to act at all times in accordance with its legal and regulatory obligations as well as its own policies and codes of conduct.

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Representative holdings and portfolio characteristics are specific only to the portfolio shown at that point in time and is subject to change. The representative portfolio shown has been selected by RWC based on account characteristics that RWC believes accurately represents the investment strategy as a whole.

Changes in rates of exchange may cause the value of such investments to fluctuate. An investor may not be able to get back the amount invested and the loss on realisation may be very high and could result in a substantial or complete loss of the investment. In addition, an investor who realises their investment in a RWC-managed fund after a short period may not realise the amount originally invested as a result of charges made on the issue and/or redemption of such investment. The value of such interests for the purposes of purchases may differ from their value for the purpose of redemptions. No representations or warranties of any kind are intended or should be inferred with respect to the economic return from, or the tax consequences of, an investment in a RWC-managed fund. Current tax levels and reliefs may change. Depending on individual circumstances, this may affect investment returns. Nothing in this document constitutes advice on the merits of buying or selling a particular investment. This document expresses no views as to the suitability or appropriateness of the fund or any other investments described herein to the individual circumstances of any recipient.

AIFMD and Distribution in the European Economic Area (“EEA”)

The Alternative Fund Managers Directive (Directive 2011/61/EU) (“AIFMD”) is a regulatory regime which came into full effect in the EEA on 22 July 2014. RWC Asset Management LLP is an Alternative Investment Fund Manager (an “AIFM”) to certain funds managed by it The AIFM is required to make available to investors certain prescribed information prior to their investment in an AIF. The majority of the prescribed information is contained in the latest Offering Document of the AIF. The remainder of the prescribed information is contained in the relevant AIF’s annual report and accounts. All of the information is provided in accordance with the AIFMD.

In relation to each member state of the EEA (each a “Member State”), this document may only be distributed and shares in a RWC fund (“Shares”) may only be offered and placed to the extent that (a) the relevant RWC fund is permitted to be marketed to professional investors in accordance with the AIFMD (as implemented into the local law/regulation of the relevant Member State); or (b) this document may otherwise be lawfully distributed and the Shares may lawfully offered or placed in that Member State (including at the initiative of the investor).

Information Required for Distribution of Foreign Collective Investment Schemes to Qualified Investors in Switzerland

The representative and paying agent of the RWC-managed funds in Switzerland (the “Representative in Switzerland”) is Société Générale, Paris, Zurich Branch, Talacker 50, P.O. Box 5070, CH-8021 Zurich. In respect of the units of the RWC-managed funds distributed in Switzerland, the place of performance and jurisdiction is at the registered office of the Representative in Switzerland.