

## UK Stewardship Code

**This statement sets out how CIC Capital Fund Ltd. applies the principles of the UK Stewardship Code.**

CIC Capital Fund Ltd is a Canadian public close-ended fund with investee company's trading the UK. The Company has adopted in full all the principals of the UK Stewardship Code and is a signatory to the code with the Financial Reporting Council.

The Financial Reporting Council (FRC) UK Stewardship Code ("the Code"), by way of its seven Principles, aims to enhance the quality of engagement between institutional investors and companies, in order to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code encourages greater transparency about the way in which institutional investors oversee the companies in which they invest.

CIC Capital Fund Ltd regards the combination of constructive dialogue with companies and the considered use of voting rights, as the basis of its stewardship responsibilities. In our view, shareholders have a vital role to play in encouraging a higher level of corporate performance by adopting a positive approach to corporate governance engagement with companies.

The Code's Seven Principles, and how and to what extent CIC Capital Fund Ltd incorporates them into our investment process, are described below.

## PRINCIPAL 1

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

We regard stewardship as integral to our long-term approach to investment and we have adopted all of the principals of the UK Stewardship Code and UK Corporate Governance Code.

Stewardship activities include monitoring and engaging with companies on matters such as strategy, public announcements, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

Our guiding principal in our dealings is no board member acts independently of the company with our clients or in regards to investee companies, conducts actions to effect the policies of the investee company, exercises power to influence the outcome of decisions related to the running of the business of the investee company. Effectively we do not influence or control the board of the investee company but we do expect understanding of the need to the right of our governing regulations in which we operate and in carrying our duties of prudent risk management on behalf of our clients whom have entrusted us with their money.

For active investee companies, we exercise close oversight of investee companies, meeting them regularly to monitor risk/performance as well as undertaking voting and associated engagement. Assessment of environmental, social & governance (ESG) issues is a full part of our investment process, with primarily responsibility by the Board as a whole. For investee companies that are regulated UK public companies we also establish document electronic portals to ensure that we can be informed in accordance with our stewardship responsibilities to our clients.

Our active UK portfolios are quite concentrated, with relatively few investee companies held. Investee companies are often held for a number of years. This ensures that the board have a detailed knowledge of the companies in which they invest on behalf of our clients and also have the time to monitor them closely in their corporate governance and regulatory compliance. As well as performance, regular meetings with management often cover strategy, risk, environmental & social risks where relevant, culture and capital structure. Governance and remuneration issues are more typically raised in our engagement around voting. We divest our equity held in investee company either/or by sale or conduct a Dividend in *Specie* to our shareholders. Our voting in investee companies is based upon the UK Corporate Governance Code and recognised good public company practice. In certain cases should a regulator request that we abstain from voting, a decision would be made to do so or end our investment in the company in question.

In the UK, we engage in advance with all companies where we intend to vote against or abstain for governance reasons on a general meeting resolution. We explain the reasons for our vote and give the company the opportunity to respond ahead of our vote instruction. In some cases, this dialogue results in changes to our voting intention and/or to the board's behaviour going forward. Our approach to stewardship is integral to our value proposition to our clients. For active portfolios, it is not sufficient that a company meets a financial screen or seems to have good short-term prospects. We want to understand that returns are sustainable and review ESG and other issues facing the company before investment and throughout our time as holders.

This includes challenging management on their own stewardship of our clients' assets and escalating our engagement where necessary. We believe that our stewardship oversight of these assets still has an important role in protecting client interests as well as for returns of the market as a whole.

## PRINCIPAL 2

### **Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

Our primary responsibility as an investment closed ended fund firm is to try to add value over the long term. Potential conflicts of interest we may face are addressed by the over-riding principle that client interests are put first.

No director or employee whom may hold shares in an investee company can vote his or her shares and must abstain. This is detailed in our conflicts of interest policy statement and guidelines. Our client's interests guide our voting and we also consider carefully any departures from the UK Corporate Governance.

Our voting guidelines in investee companies are intended to identify the best interest of all clients as investors in a particular company. Basing our voting decisions upon these guidelines helps us to manage conflicts of interest.

As with all our holdings, votes in situations where there may be a perceived conflict of interest, are considered in the context of our voting guidelines and/or by a regulator. In this instance where we abstain from voting an entry in the conflict of interest register are required.

As set out above, we have a procedure for conflicted situations where we believe that investor interest is not reflected in the initial vote recommendation. This would apply if clients' interests diverged or a client relationship raised a potential conflict. If a conflict arises through holdings in both sides of a transaction, the shares in each company are voted in the interest of clients as investors in that company.

Where engagement with an investee company is proposed that would create a conflict of interest, the proposed engagement is recorded in the conflicts of interest register before commencement, or at the first opportunity if the conflict had not been appreciated at the outset, including an explanation of how the conflict will be managed. The outcome of the engagement is also recorded.

As with all engagements, the best protection when undertaking engagement in a potentially conflicted situation is to maintain a high standard of research, communication and documentation.

Our independent non-executive directors and the audit committee members review all entries in the conflict of interest register retrospectively. We consider ourselves as insiders no matter what our holding are in an investee company and comply with the UK Market Abuse Regulation and Canadian regulations.

## PRINCIPAL 3

### Institutional investors should monitor their investee companies.

We monitor companies through our investment process. This includes assessment of companies' own and market data, consideration of back ground research including on directors including ESG & voting research, attending individual and group meetings with company management and directors, talking to competitors and customers, and conducting our own financial modelling.

Whilst investors can never know all that is happening inside a company and or receive price sensitive information, we believe that our investment process for active engagement with investee company board makes us acutely sensitive to variations in company performance, drivers of value and risk, strengths and weaknesses of corporate leadership and the quality of companies' reporting.

Where concerns arise, we seek meetings with the company; with management in the first instance but where the response has not been satisfactory or where management might be part of the problem, we meet with the Chairman and / or independent directors. We find that UK companies respond well to this approach, at least in their availability to meet.

We monitor and assess all investee companies' adherence to the UK Corporate Governance Code through external ESG and voting research, our own research and through regular and ad hoc contact with Chairmen, Executive Director and other board members.

## PRINCIPAL 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.**

As set out above & below, our investment, voting & engagement processes include contact at many different levels of an investee company. Our inclination is to support management in good standing. In the first instance, any engagement is to understand its approach, with the expectation that this will enhance confidence.

Where concerns arise because we feel that regular communication has not demonstrated that an issue is being adequately addressed, we might adopt any of the escalations set out in the guidance accompanying this principle in order to protect client interest, subject to the likelihood of a particular approach actually being successful. At each stage, we are seeking confidence that our concern is either misplaced, or is acknowledged and being addressed appropriately. If that confidence is lacking, we consider escalation in our engagement.

Our approach related to specific issues is as follows, reflecting in every case an engagement we have already undertaken:

- Where we have concerns about performance and / or strategy, we would normally contact management in the first instance.
- Concerns about management themselves or following an unsatisfactory response from management would be raised with the Chairman, or with the Senior Independent Director if the Chairman was unavailable / conflicted.
- We might discuss our concerns with the company's advisers at different stages but would normally only ask them to communicate these formally if we had had an inadequate response from management and / or directors.
- For voting issues, we normally contact the company secretary in the first instance. We expect the company secretary to communicate our concerns to the board. Subsequent engagement can be with the company secretary, other officers, directors and / or the Chairman.
- Concerns about remuneration are usually addressed initially to the company secretary, subsequently with company officers and /or the chairman and members of the remuneration committee.
- Concerns about audit, reporting & auditor rotation are also addressed initially to the company secretary, subsequently with the chairman of the audit committee.
- Where other ESG issues arise, these will normally form part of regular engagement for investee company concerned in the first instance.
- Concerns about a government organ or official or person preventing an investee company engaging with us in regards to the principals of the UK Stewardship Code we will escalate the issue to an authorised complaints organ.
- For investee companies, our external research and / or own monitoring could raise issues of concern. We raise these first with Executive Director and/or Board. In some cases, we ask a company to explain / develop an action plan for addressing an issue so that investors can monitor its progress in doing so. We are always keen to see director involvement with these issues and will seek meetings with them if initial responses do not address our concerns / a more strategic approach is required.

## PRINCIPAL 5

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

Our investment dialogue with investee companies is usually conducted alone. Any consequent engagement will normally also be conducted on a direct one-to-one basis.

For governance, performance strategy & leadership issues, we would normally only consider collective engagement with other shareholders where our initial engagement with a company has failed to bring the confidence that we sought. This might be due to the quality of the company's response or because the scale of a holding meant that the company had not given our concerns sufficient attention. In this case, we might approach other shareholders directly to see if our concerns were shared / there was an appetite for joint action.

We are active in other investor networks and have participated in joint engagement through a number of them internationally. Some other governance issues, such as remuneration and audit, lend themselves more easily to joint engagement at the outset. We have participated jointly with other investors in engagement under both these headings. In some cases, these engagements have been initiated by an Investment Association.

ESG issues are also often appropriate for joint discussions with companies, enabling investors to leverage their influence / share coverage. We participate in thematic joint engagement on climate change and supply chain issues organised by the Principles for Responsible Investment Clearing House. We also participate in joint engagement with companies on climate change initiated by the Institutional Investors Group on Climate Change. We identify ESG issues for engagement through our own monitoring and research and consider whether to engage jointly or collectively according to the opportunity and likely impact on a case-by-case basis.

## PRINCIPAL 6

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

We aim to vote all UK and overseas equities for which clients have given us voting authority, except for practical reasons such as share blocking or overly burdensome power of attorney requirements, conflicts of interest or regulatory requests not to do so.

We have clear and detailed voting guidelines, which provide the framework for our voting decisions, although these are applied according to the particular circumstances of the investee company. These guidelines are based upon the UK Corporate Governance Code and Investment Association remuneration guidelines for UK companies and on widely accepted international governance standards for other markets. We aim to make clear our support for these standards whilst accepting that companies may have good reasons for departing from them. We also receive research on UK companies from the Investment Association's Institutional Voting Information Service.

As set out above, we engage in advance with UK investee companies where we intend to vote against or abstain. Our own analysis / what we hear from the company may result in a different view from the custom recommendations before and / or after engagement. In order to change our intended vote, we normally expect the company to demonstrate that it has or will address the issue of concern, as we would normally have considered any explanation before informing them of our intended vote.

For holdings outside the UK, fund managers may also depart from custom recommendations where their knowledge of the company or investment view determines a different view. We offer clients detailed reports on our voting activity and consult with them on key voting decisions.

We do not ourselves undertake stock lending, nor do our funds. Where external clients lend their stock, this rarely accounts for a significant proportion of our total holding in a company. We usually have the authority to recall for voting but would not normally regard doing so as in client interest.

## PRINCIPAL 7

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

We are committed to accountability to our clients on stewardship, corporate governance and voting. Our clients can receive a quarterly reporting on all voting and also receive reporting with the rationale for any votes against. Clients can also receive a quarterly report detailing each engagement and its outcome. Our engagement with investee company's history is also available to clients and the Executive Director is accessible at any time by phone or email.

Our internal Compliance function reviews all public-facing documents related to our responsible investment, stewardship, voting and ESG activities. Additionally, an internal audit function ensures that our procedures remain effective and disclosures accurate for our external and internal stakeholders.

**31 January 2016.**

The person who can be contacted for further information is: Head of Corporate Governance at CIC Capital Fund Limited. 1100 - 570 Granville St, Vancouver, British Columbia V6C 3P1.
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