

Corporate governance and shareholder engagement

Everything we do is designed to deliver outstanding performance and service to our clients. Central to that is a considered approach to stewardship. So we are pleased to support the seven principles set out by the Financial Reporting Council (FRC) in The UK Stewardship Code. How we do this is explained below.

Principle 1

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

Artemis is an active investment manager. As well as fundamental research, regular meetings with companies guide our decisions* – before and after we invest.

By meetings, we mean regular and constructive exchanges of views with a company's executives, non-executive directors and its investor relations team. Before that happens, our investment teams discuss informally what they want to achieve from any 'engagement' and set out formal objectives. Topics include strategy, operational performance, financing and risk – as well as corporate governance. Where our fund managers and analysts have specific concerns or need more time with management, we will ask for extra meetings.

Our aim is to grow the value of our clients' investments over the long term. To that end, we take seriously our duty to support and improve the corporate governance of the companies whose shares we own and to keep abreast of best practice. When companies fall short of guidelines such as the UK Corporate Governance Code we consider their explanations carefully. In some cases, we look for evidence they have acknowledged the problem and are moving towards best practice. In others, the size, complexity or nature of their business will explain why they take a different approach – say to the structure of the board and its committees.

To provide independent research on corporate governance we have chosen the specialist Institutional Shareholder Services (ISS). But this is to support what we do: it does not do our thinking for us. Artemis' approach to stewardship – that is, how we engage with companies and how we vote – is our own.

We report on these matters regularly to our clients and a quarterly summary of how we have voted is available on our website. Meanwhile the firm's stewardship statement and voting policy is subject to annual review and approval by our investment committee. We also review annually the services we get from ISS.

Further information can be found on the [stewardship and voting](#) page of our website.

Principle 2

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

Artemis is a privately owned, independent partnership and fund management is all we do. So we don't encounter some of the conflicts of interest faced by larger investment or financial services companies. But it does happen, even in less complex businesses – and we recognise that. For example, the pension scheme of a company in which we are investing might be a client of Artemis; or we may have investments in one of our main distributors, or in Affiliated Managers Group Inc (AMG) which owns a stake in our business; or one of our partners, non-executive directors or employees may be a director of one of our holdings.

How we vote may benefit, or be perceived to benefit, Artemis or a particular investor. So we have put in place a firm-wide policy setting out how we will deal with actual or potential conflicts of interest. Its central tenet is: clients always come first. Where there is a possibility of a conflict of interest any decision to vote against the voting policy is discussed with Artemis' chief investment officer, and the final decision with explanation is recorded.

We record and cross-reference all potential conflicts in a 'matrix'. This allows us to monitor and prevent any disadvantage to our clients. Both the policy on conflicts of interest and the accompanying matrix are reviewed and approved every year by our management committee.

Further information about potential conflicts of interest is available on request.

Principle 3

Institutional investors should monitor their investee companies.

Our aim is to outperform the market and produce superior long-term returns for our clients. To do this, we use fundamental analysis. Alongside the share price, we make our own calculation of a company's value by looking at the factors affecting its business now and in the future. This involves gaining detailed knowledge, through:

- meetings and calls* with senior company managers, their advisers and analysts;
- analysis of published company reports, announcements and circulars;
- broader internal and external research and data;
- proprietary screening tools.

Artemis rarely attends general meetings. We prefer to talk privately with management as we believe this is a much more effective way to monitor strategy, performance, risk, capital allocation, governance and remuneration. Where relevant, discussions will also include environmental and social issues. We review progress and, if we have concerns, challenge management on their decisions. Then, after each meeting,

* The exception is our quantitative based investment strategies which use SmartGARP®, Artemis' in-house proprietary, quantitative model. This analyses many factors, both company-specific and macroeconomic, to construct a portfolio of stocks. Meeting managements does not form part of this process.

our fund managers and analysts discuss what further action is needed.

Fund managers and analysts have specific areas of expertise across a range of subjects: country, industry, company, corporate governance, finance, economics, business and so on. Their experience helps each investment team to decide what is appropriate in terms of monitoring and engagement. The approach will reflect our view of the current and future prospects of the company, whether there are specific issues to address and the stock's current and likely future position in a portfolio.

No team at Artemis works in isolation. Often, members from different strategies attend meetings together – depending on interest, knowledge of the company and expertise in the issues to be discussed. Fund managers and analysts record the details of any 'engagement' in a database which allows information to be shared. Alongside external research, this is our main resource for monitoring actual and potential investments.

As investors, we may not wish to be made 'insiders' – that would stop us being able to buy or sell the relevant shares. So we ask investee companies to make sure they get our agreement before giving us privileged information.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

Artemis is an active but not an 'activist' investor; we don't buy holdings in companies with a view to changing the way they are run. Nor do we want to or feel obliged to micro-manage their affairs. But we will intervene where we feel it necessary. It may be that we have concerns about strategy, operational performance, acquisitions and disposals, internal controls (or lack of them) or remuneration.

What we do about these concerns depends on what is best for our clients. For example, we may:

- talk to the board and management;
- write to the companies in which we invest to explain our expectations as owners;
- collaborate with other shareholders to bring pressure to bear on a board;
- abstain or vote against management's resolutions;
- submit resolutions at shareholders' meetings.

The approach will depend on what is most effective for a particular issue. Generally, operational and financial matters, and execution of strategy, are likely to involve meeting the executive team. Concerns about board oversight, governance and risk tend to be discussed with non-executives. And in certain circumstances it may be appropriate to speak to the chairman or senior independent director.

In any engagement it is important that there is a proper dialogue. Where we feel a message needs reinforcing, in serious situations or when time is tight we use a combination of the activities listed above. Our success (or otherwise) is measured in the long-term in terms of a company's achievement of its overall objectives including shareholder value. This does not stop us selling a holding if that is the most effective response.

Principle 5

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

Our approach emphasises meeting and talking to company directors. But this does not stop us collaborating with other large shareholders if collective action could be more effective and our objectives (including the need for confidentiality) are the same. It may also involve us contacting individual shareholders directly or through industry groups such as the Investment Association and Investor Forum. We consider each case carefully, on its own merits. Issues on which we have acted collectively include corporate strategy and its implementation, capital allocation and directors' pay.

Institutional investors interested in collective engagement should contact:

stewardship@artemisfunds.com

Principle 6

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

It is our responsibility to exercise our clients' voting rights in a considered manner, within the context of a positive relationship with a company's management. Artemis aims to vote its shares in all stocks in the UK and overseas unless we are restricted from doing so by local market practice or clients have made other arrangements.

Our voting is informed and carried out by an independent specialist, ISS. Together, we have developed guidelines which take into account local, national and international standards. This ensures our expectations for corporate governance are appropriate to each business we invest in.

ISS draws on best practice from around the world for its analysis. Artemis' fund managers have access to this in the form of governance reports. ISS also provides them with a summary of all resolutions put forward at company meetings and assesses the extent to which governance arrangements are in line with best practice.

This research is very valuable. But we would emphasise that our fund managers make the final decision on how to vote.

Sometimes our instructions to ISS may differ from our agreed policy. This could be for the reasons explained in Principle 1 (above) or it may be that we have talked to the company and received a satisfactory explanation. We may also need to review resolutions on a case-by-case basis. Part of the process is keeping a clear record of votes cast and our reasons for voting against, abstaining from or voting with management on contentious issues. Where our instructions differ from our policy, and it's a UK company in which we have a significant holding, we will tell them why.

We prefer to support management's resolutions: where we may not is set out publicly in an appendix to this document. Companies with queries should contact:

stewardship@artemisfunds.com

At the moment, we do not lend stock. If a client's custodian does so, Artemis will not recall it for voting without prior arrangement. Where share-blocking is an issue – that is, voting would bar us from buying or selling a company's stock around the time of the AGM – we prefer the option to trade.

Principle 7

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

A summary of our votes and details of those instances in which we have voted against management are included in the standard quarterly investment reports we send to our institutional clients. We also provide a quarterly summary on the [stewardship and voting](#) page of our website.

We have not sought an independent opinion on our shareholder engagement or voting. However, Artemis' operational voting processes and procedures are subject to review/oversight by internal audit/compliance on a regular basis. Artemis' investment committee reviews and approves the statement on stewardship and the voting policy annually. These topics are also discussed at the committee's quarterly portfolio meetings. The firm carries out due diligence when outsourcing the processing of votes to third parties such as ISS: any external service must meet the required standard and demonstrate effective operating controls. We review the services provided by ISS annually.

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Further information

For further information please contact

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