

# UK Stewardship Code

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PrimeStone Capital LLP

Date issued:  
12 March 2015

## **Disclosure of commitment to the Financial Reporting Council's UK Stewardship Code**

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### **Introduction**

Under COBS 2.2.3 R any firm other than a venture capital firm, which is managing investments for a professional client that is not a natural person must disclose clearly on its website, or if it does not have a website in another accessible form:

- (1) the nature of its commitment to the Financial Reporting Council's Stewardship Code; or
- (2) where it does not commit to the Code, its alternative investment strategy.

Firms which wish to do so may notify the FRC (by email via [stewardshipcode@frc.org.uk](mailto:stewardshipcode@frc.org.uk)) that they have published a statement; details of each signatory, along with a link to its statement will be listed on the FRC's website, according to the categories of asset managers, asset owners and service provider here: <http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements.aspx>.

PrimeStone has chosen not to do so, as it hosts the document on its website.

The FRC code guidance expects application on a “comply or explain” basis, and is not a rigid set of rules. Where a principle is not being complied with, a meaningful explanation should be delivered enabling the reader to understand the Firm's approach to stewardship. Firms may determine that some, but not all, of the provisions of the Code are disproportionate in its case and set out as part of its disclosure why this is the case.

## Statement of Commitment to the UK Stewardship Code

PrimeStone Capital LLP (“PrimeStone” or “the firm”) provides discretionary investment management services to a variety of clients, including institutional investors.

Under COBS 2.2.3R of the FCA Handbook we are required to make a public disclosure in relation to the nature of our commitment to the UK Financial Reporting Council’s Stewardship Code (“the Code”), published in July 2010, and updated in September 2012.

The Code was published by the FRC, the United Kingdom’s independent regulator responsible for promoting high quality corporate governance and reporting in order to foster investment. The Code is directed at asset owners and asset managers with equity holdings in UK-listed companies and aims to enhance the quality of engagement between institutional investors and companies they invest in. Engagement includes pursuing purposeful dialogue on strategy, performance and the management of risk, as well as on issues that are the immediate subject of votes at general meetings.

PrimeStone supports the principles underlying the Code and believes firmly in the importance of corporate governance driven by strong boards and executive leadership and sound governance policies that protect and enhance long term shareholder value. Where appropriate, we seek to engage effectively with the managements of firms we invest in to better understand the potential risks and returns in order to achieve optimum returns for our clients. We have set out below the approach taken to the Code principles and explained the approach taken where we consider it not appropriate or proportionate to our business. We follow this approach for all our clients, but do not, however, apply the Principles to other asset classes in which we invest, as we do not consider it appropriate.

Our holdings in investee companies will be large, sometimes as large as 15% or more.

We will seek to review this statement on an annual basis, and update this where necessary to reflect changes in actual practice. Where we do this we will inform the FRC appropriately.

Should you require further information on the firm’s approach to the Code please contact the COO, Martin Donnelly, [md@primestonecapital.com](mailto:md@primestonecapital.com).

### Principle I

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

We support the purpose of the UK Stewardship Code and believe regular dialogue with investee companies is a key component of our investment process and helps develop our knowledge of the investee’s business strategy, performance, future prospects, attitude to risk, capital structure, board cohesion and corporate governance, including culture and remuneration.

Dialogue with investee companies allows us to convey our views on our investment and, where necessary, we will intervene by raising our concerns with the board and its representatives. In the exceptional circumstances outlined below we may engage with other investors to raise our mutual concerns. We acknowledge that investee company management may have more information at their disposal and that may justify variance from UK corporate Governance practices. However, should our concerns remain unresolved, it may sufficiently alter the original investment hypothesis such that we decide to sell or reduce our investment.

Stewardship considerations are an integral part of our investment process. We record all interactions with investee companies and the investment team considers each investment on a regular basis. In this way we seek to ensure the investee board and management comply with relevant governance codes.

We endeavour to exercise proxy votes at all shareholder meetings where we are authorised to by our clients. Where so authorised, our investment managers make voting decisions based on our

knowledge of the investee company and the dialogue described above. We may also refer to independent research from voting advisory services in reaching a voting decision. We periodically report on our proxy voting decisions to our clients.

We do not outsource any activities relevant to stewardship.

## **Principle 2**

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

The firm is authorised and regulated by the Financial Conduct Authority, which requires firms to identify, and mitigate any conflicts of interest between itself, its clients, and between clients that may result in a loss to them. We maintain a conflicts of interest policy and register to satisfy this requirement, which is subject to regular management review.

We act as investment managers with a fiduciary responsibility to act in the best interest of our clients. We do not undertake any other business activities that might give rise to a conflict of interest. We seek to optimise investment returns for our clients through thorough investment research and, since our revenues are dependent on both management and performance, believe our interests are aligned.

Where a conflict exists between clients' interests in relation to, for example, voting, engagement,, nomination of directors, etc we will assess this and manage the conflict in accordance with our Conflicts of Interest policy.

We do not act for more than one client and so do not have any conflict of interest issues pertaining to dealing with multiple clients.

## **Principle 3**

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

We are of the firm opinion that continuous and effective monitoring of investee companies is a fundamental responsibility of an asset management firm. We monitor a comprehensive range of information from financial analysis of publicly available information, market intelligence from industry sources, broker research, fundamental analysis and meetings with the board and senior managers. A fundamental part of that analysis is ensuring the firm complies with the UK corporate Governance Code or can explain any divergence from it. All relevant information is recorded and analysed as part of PrimeStone's pre and post investment process.

Where we become insiders we will follow our internal Insider policy.

## **Principle 4**

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

PrimeStone actively engages with investee company management regularly as part of our fundamental investment process, which seeks to optimise investment returns. We view engagement as a two way communication process: a means of enhancing our knowledge of the investee company and as a means for conveying shareholder concerns. We seek to engage with boards on a confidential basis to constructively resolve any concerns and allow them to explain their position.

Notwithstanding the above, we have chosen not to define a prescriptive basis for escalation because the circumstances will vary from case to case. However, where our dialogue fails we may be prepared to escalate our concerns by acting collectively with other shareholders, subject to legal and

regulatory constraints. Failing that, if we perceive the concern has changed the investment thesis, we may sell or reduce our holding. As investment professionals we believe we are best placed to act in our clients' best interests.

## **Principle 5**

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

We believe we have sufficient expertise and knowledge of investee companies to deal with any concerns that we might have about the investee company's business activities, strategy or corporate governance. In most cases we would expect to engage with the board on our own initiative or we may decide to dispose of or reduce our holding. However, in certain circumstances, where we believe the issue is of significance and wish to retain our holding, we recognise that collective action with other shareholder may be more effective. This will be dealt with on a case-by-case basis, and with due regard to our policies on conflicts of interest and inside information.

We will only act collectively where we are satisfied it will not breach legal, regulatory, market conduct or confidentiality obligations applicable. Any collective action will only be used to raise legitimate concerns about corporate issues and/or governance issues. The actions may include discussions with other shareholders about concerns to be raised with the board, joint representations by shareholders to the board and agreement between shareholders to vote in a specific way.

## **Principle 6**

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

PrimeStone aims to exercise proxy voting rights on behalf of our clients for every investee company regardless of geographic location. The voting decisions are based on in-depth research and knowledge of the investee company. We believe that exercising voting rights is an important responsibility of institutional shareholders and helps improve corporate governance standards and holds management to account.

PrimeStone will draw its own conclusions based on its knowledge of the investee company and will vote based on those conclusions, which may be in opposition to the investee's board. If appropriate, we would seek to engage the board prior to voting to explain our conclusions and resolve differences of opinion.

We do not typically engage proxy voting or other voting advisory services, instead exercising these directly ourselves, nor do we engage in stock lending.

We will not disclose publicly our voting records.

## **Principle 7**

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

We will maintain a clear record of our stewardship activities and will regularly report on our engagement and voting activities to our clients as part of our regular communications. This will include information on voting and rationale behind decisions taken.

However, we will not make detailed disclosure on the nature of that activity or conclusions drawn as the information may be confidential, subjective and is often used to inform our investment decisions.

As such, our investment performance will reflect whether our engagement with investees has been effective.