April 2017

Engagement Policy - Liontrust Investments Ltd (LIL)

Introduction

The investment aim of the Sustainable Investment team is to manage the allocation of the capital of its funds and institutional clients in accordance with their investment objectives and to protect and enhance their value. Our Engagement Policy is written on behalf of the LIL's Sustainable Investment team as an investment manager.

We believe engagement is an essential part of being a shareholder in a company. We hold regular meetings with the management of the companies in which we invest to discuss strategy, sustainability and performance, and to review management processes against best practice. Engagement improves the team's understanding of investee companies, their governance structures and business practices and is very much an input into our investment process and resulting investment decisions. Engaging with companies also informs our voting decisions.

This policy statement sets out how we engage with investee companies, our approach to voting and how we report on our engagement and voting activity.

1. Engagement with investee companies

We believe that engagement is an essential part of being a shareholder in a company. It improves our understanding of investee companies, their governance structures and business practices so that our investment decisions are better informed. It also informs our voting decisions. As part of our investment selection process, we hold regular meetings with the management of the companies to discuss strategy, sustainability and performance, and to review management performance against best practice.

We adopt a case-by-case approach to engaging on material governance, environmental or social issues. In addition, we will engage with management in an appropriate manner and make a record of this engagement – this may be by conference call, letter or by seeking access to the board chair person or directors. The materiality and immediacy of a given issue will determine the nature of our engagement.

We identify areas of environmental, social and governance concerns using a range of resources including our own fundamental research. We believe that well-managed companies will report on material social and environmental risks and opportunities and explain how these are managed. As these are often not voting issues, we may engage directly with company management or the board where we believe there is the potential for a material impact on shareholder returns.

1.1 Engagement responsibilities, prioritisation and monitoring

Our investment team carries out its own assessment of the key issues on which to engage with companies. We supplement this with broker research and external ESG research data. We currently use Ethix ISS, MSCI, Ethical Screening and Sustainalytics to identify best practice and to highlight areas of poor ESG performance. We also work with our Advisory Committee to identify emergent ESG concerns.

Our investment approach is one of full integration of ESG issues into investment decisions. We do not have separate fund management and ESG teams; instead every investment team member is responsible for all aspects of financial and ESG factors relating to the investment decision. Team members are responsible for clearly defined sectors and cover stocks within their respective sector. Each team member has responsibility for monitoring the major trends and themes in their sector, identifying investment opportunities, assessing the ESG performance of those opportunities, integrating that information into forecast earnings and valuation, submitting investment recommendations for our funds, engaging with companies and subsequently conducting all proxy voting for investee companies. Because of this integrated approach, investment team members engage with companies across a broad range of issues relating to steps in our investment process, such as screening criteria, sustainable investment themes and company-specific environmental, social and governance issues.

Prioritisation

The broad areas where we wish to focus our engagement are agreed annually by the investment team. We select several environmental, social and governance areas to focus on with proactive engagement plans targeting specific companies and/or sectors. We set out the issue, identify engagement objectives and put in place an engagement plan. The team decides how best to use its influence to meet these objectives and selects a team member to lead the engagement plan. We focus our efforts on the basis of materiality to earnings and potential beneficial impact. Our Advisory Committee advise on our engagement strategy and prioritisation.

In addition to proactive engagement plans, we also conduct more reactive or company-specific engagement with companies. We ensure that investee companies adhere to best practices and that they meet our screening criteria and governance codes. Where companies fall short of expected standards or where they are identified as being involved in business practices that are of concern, we will engage directly to seek reassurance that any issues are being managed effectively.

Monitoring

We believe that good management of the companies in which we invest is an essential part of creating shareholder value and delivering investment performance for our clients. Environmental, social and governance (ESG) factors create risks and opportunities for companies and must be managed appropriately. Monitoring companies and engaging with them is therefore key.

We assess progress against proactive engagement priorities at monthly dedicated engagement meetings. Details of meetings and correspondence with company management are recorded internally on our database as are outcomes from collaborative engagement. Our Advisory Committee are updated on our engagement activity at each Advisory Committee meeting.

For company-specific engagement that is more reactive in nature we identify the person(s) most able to deal with our concerns or queries, which ranges from investor relations and sustainability teams through to the directly engaging with management, the company chairman or experts within the company. We keep records of our meetings and correspondence with investee companies, and where appropriate we schedule follow-up meetings in order to monitor progress. How a company responds to engagement is factored into our investment analysis.

1.2 Escalation of engagement

Where we believe that shareholder value is threatened or is not being realised, we will request that the board takes appropriate action. In most cases, a private dialogue with executive management, non-executive directors and company advisers is our preferred way to protect our clients' interests. We will also engage with the chairman of the board or the senior independent director where appropriate. If we receive an unsatisfactory response, we will assess to what extent this affects the overall investment decision. To protect our clients' assets, we would then look at a range of options that might include selling the shares, contacting other shareholders to discuss joint intervention or publicly opposing management who refuse to act on our concerns.

1.3 Collaborative engagement

We would consider collective action in collaboration with other shareholders or a representative body, in the event of financial, ESG or legal circumstances with the potential to materially affect the company. The team prioritises collaborative engagements where they fit with the team's engagement priorities, and where the team is more likely to succeed with the engagement objective through collaboration.

LIL is a signatory to the Principles for Responsible Investment (PRI) and the team has been a signatory since the Principles were founded in 2006. We are a member of the Listed Equity Advisory Committee. Members of the team are represented on a number of PRI working groups and we also collaborate with other investors on other initiatives.

1.4 Stewardship

The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. We comply with the principles set out in the UK Stewardship Code. We publish a statement on our website that details how we comply with the Code and how we discharge our stewardship responsibilities.

www.liontrust.co.uk/fund-teams/sustainable-investment-team

2. Voting

One of the key tools we use to effectively engage with companies is expressing our views at AGMs and EGMs through proxy voting of shares held on behalf of our clients.

We believe that good management of the companies in which we invest is an essential part of creating shareholder value and delivering investment performance for our clients. ESG factors create risks and opportunities for companies and must be managed appropriately. The fundamental principle of our corporate governance policy is to protect and enhance the economic interests of our clients. In any situation our actions will always be determined by this principle.

Best practice

We summarise below what we regard as best practice for the companies in which we invest. This determines how we engage and interact with investee companies and influences how we will cast our votes.

Leadership

Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company. There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered decision-making powers. The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role. As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Effectiveness

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge. The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. We believe that boards that are diverse are more able to draw on a wide range of skills, competence and diversity of perspectives and are therefore better able to challenge, debate and fulfil their oversight responsibilities, and generate and preserve shareholder value.

ESG disclosure

We believe that well managed companies will report on social and environmental impacts and mitigation efforts. Where companies do not disclose information publicly in annual reporting we reserve the right to use our voting policy to withhold support from the adoption of the annual report and accounts or another appropriate resolution.

Accountability

The board should present a balanced and intelligible assessment of the company's position and prospects. The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems. The board should establish a formal and transparent process to review the company's corporate reporting, risk management and internal control principles. The board should maintain an appropriate relationship with the company's auditor.

Remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. There should be a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding their own remuneration.

Relations with shareholders

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The board should use the AGM to communicate with investors and to encourage dialogue.

Auditors

We hold that the Audit Committee should pay particular attention to the provision of non-audit services by the external auditor. Where non-audit services have been provided by the auditor, LIL will consider carefully both the actual value of non-audit services provided as well as the ratio between the audit and non-audit fees. We will withhold support if non-audit fees are materially greater than audit fees and if where we believe the auditor should be rotated due to tenure.

Voting policies

Our UK voting policy is included for reference, for all other custom voting policies please visit:

www.liontrust.co.uk/fund-teams/sustainable-investment-team

3. Reporting on voting activity and engagement

We publish quarterly voting records together with a voting rationale on our website.

www.liontrust.co.uk/fund-teams/sustainable-investment-team

A summary of our engagement activity is available on request, please contact sinead.lennon@liontrust.co.uk