



UK STEWARDSHIP CODE 2020

Annual Stewardship Report



GUARDCAP

Table of Contents

Introduction	1
Principle 1	2
Principle 2	7
Principle 3	12
Principle 4	13
Principle 5	17
Principle 6	18
Principle 7	20
Principle 8	21
Principle 9	22
Principle 10	25
Principle 11	26
Principle 12	27
Appendix 1: Principles of the Code	32



GUARDCAP

Introduction

Our business focuses on the long term, and we commit to investing in some of the highest quality, sustainable, long-term growth companies in the world. Our concentrated approach means that we spend our time focusing on a small number of companies, which meet our teams' investment criteria (including a company's "Foundations for Sustainable Growth" ("FSG")), and take our time to understand a company over many months, and often years, before we decide to invest.

We recognise the importance of good stewardship and our research is proprietary and well documented, with the majority of our teams' time spent on "maintenance research", or staying on top of developments in our investee companies and holding them to account. This involves company meetings and engagements, as well as voting at company general meetings.

We recognise that 2020 was a challenging year for many, and we were fortunate to be able to continue to manage our business, investment processes and portfolios through this time, with minimal disruption. Our investment teams remained focused on research and portfolio management; our Client Service team continued to provide a high level of service to our clients; and our Operations, Risk and Compliance teams adapted to what was GuardCap's sharpest period of growth since 2014.

This report details some of GuardCap's stewardship activities during the reporting year 2020, written to align with the principles of the 2020 UK Stewardship Code. The stewardship principles outlined within this report apply to all and both of GuardCap's strategies: GuardCap Global Equity and GuardCap Emerging Markets Equity.

We hope that our clients and stakeholders will find it of interest and we look forward to discussing our continued developments over the months and years ahead.

*Steve Bates
Chief Investment Officer*

Principle 1

History and Ownership

GuardCap Asset Management Limited (“GuardCap” or “the “Firm”) is a wholly-owned subsidiary of Guardian Capital LP (“GCLP”), which is part of Guardian Capital Group Limited (“Guardian Capital”). Guardian Capital is listed on the Toronto Stock Exchange (TSX: GCG, GCG.A). GuardCap is authorised and regulated by the UK Financial Conduct Authority (FCA) and is a registered investment advisor with the US Securities and Exchange Commission (SEC)*.

*GuardCap is a Registered Investment Adviser with the US SEC. SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the adviser has attained a particular level of skill or ability

In July 2003, Steve Bates and Clive Lloyd founded Zephyr Management (UK) Limited (“Zephyr”), under the ownership of Zephyr Management LP, US. In December 2013, GCLP announced the acquisition of Zephyr and the acquired company’s name was changed to GuardCap Asset Management Limited. This transaction was completed in April 2014, following receipt of the appropriate regulatory clearances.

GuardCap operates as an autonomous investment entity within the Guardian Capital Group and all investment analysis and portfolio management activities pertaining to GuardCap’s investment strategies are carried out in London. This business structure means that although GuardCap operates as an autonomous investment boutique, it has access to the support resources of a much larger organisation, which allows us to maintain an investment led culture in London.

At the same time, GuardCap is not subject to short-term pressures or shareholder demands, which supports our long-term investment approach.

As at 31 December 2020, GuardCap had 22 employees based in London (21) and Paris (1), including nine investment professionals (all based in London), and managed more than USD 8.6 billion for clients across two long-only equity strategies: GuardCap Global Equity and GuardCap Emerging Markets Equity. In managing only two strategies, which follow the same investment philosophy, all employees within the Firm are clear on how we invest, and we work together with our clients’ needs at the forefront.

There is a strong alignment of interest between our investment managers and our clients, with all of our investment managers investing significant amounts of their personal capital in their respective strategies.

Purpose, Investment Beliefs and Strategy

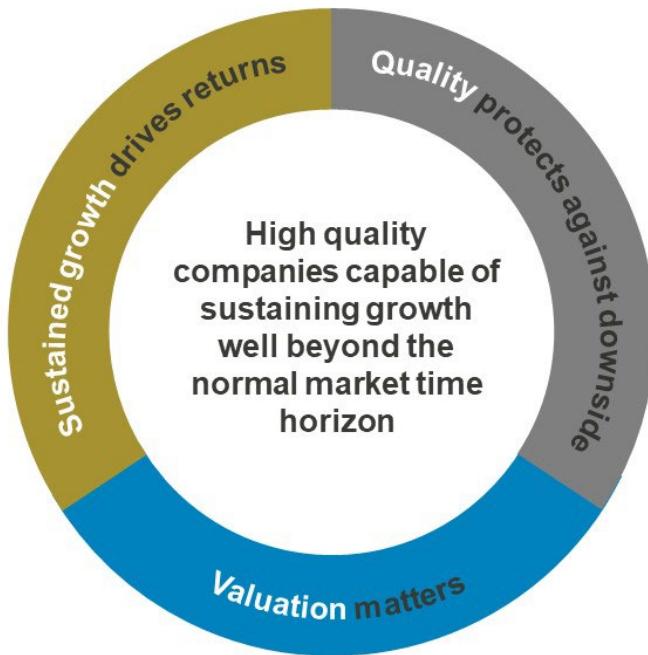
GuardCap’s business strategy is to hold investment at the centre of our activity, to seek long-term client relationships, to keep to our core products and to close them to new investment if liquidity constraints begin to impinge on our ability to make investment decisions, which we believe will add value to client portfolios.

Our core objective is to achieve superior returns for our clients, in excess of standard benchmarks with less risk than the benchmarks, over the long term. An integral part of this is our commitment

to investing in the highest quality companies around the world that are capable of generating long-term sustainable growth.

Our investment approach focuses on long-term thinking, long-term forecasting and long-term holding periods. We believe that by undertaking in-depth fundamental research, and by thinking in years instead of quarters, whilst methodically building confidence in companies' long-term growth potential, we can uncover attractive investment opportunities that are typically missed by market participants focused on the short-term, and enhance the potential to generate returns whilst protecting against downside risk.

The following diagram provides an overview of GuardCap's investment philosophy:



Each investment team is solely dedicated to the management of their respective asset class, and we undertake concentrated and rigorous analysis, supported by in-depth research and modelling, to ascertain whether the companies under coverage meet our exacting and uncompromising criteria for quality and growth.

Our investment teams carry out approximately 120 company meetings per year, as well as approximately 330 other "touch points", such as results webcasts and Investor Days. They travel to meet with companies at their headquarters and operating facilities, host meetings and attend company conferences, as well as participating in all conference calls and Investor Days offered by the companies in the "High Confidence Pool" or "Buy List", which includes the companies within our portfolios. These company contacts are a critical part of the analytical process and we meet with a company's key competitors, suppliers, customers and distributors, and others along the value chain. We believe this approach is important in helping us understand exactly the kind of company we are looking at, and acts as an additional lens through which we can identify any potential risks or opportunities.



The result is highly concentrated portfolios (20-30 stocks) offering exposure to high quality, sustainable, long-term growth companies. We believe that by investing in these types of companies, we create long-term value for clients and beneficiaries, as well as sustainable benefits for the economy, the environment and society over the short and long term.

Culture

We recognise the importance of culture to an organisation, and believe GuardCap's culture is fundamental to its continued success.

In 2014, we set out to identify and determine GuardCap's vision, mission and culture. We identified the key pillars of the Firm's culture as **stability, trustworthiness** and **integrity**. These pillars underpin GuardCap's core values, beliefs and behaviours, which were formalised in a paper entitled "*Sustaining the GuardCap Culture for the Long-Term*". In order to uphold these key pillars, we must:

1. Put clients first;
2. Act with integrity and honesty in everything we do;
3. Act as a team, rather than a group of individuals; and
4. Strive for excellence.

The following section provides an overview of how we have consistently applied the Firm's core values, beliefs and behaviours to our investments and business practices, which form the basis of our culture and enable us to act as responsible long-term stewards of capital.

Clients

Clients are our number 1, 2 and 3 priority, and we seek to attract clients who share our investment philosophy and understand the advantages and disadvantages of our investment approach, i.e. those that understand the importance of being patient – because we invest for the long term. We endeavour to provide clients with full disclosure on the nature and attributes of our investment style, and communicate on an ongoing basis, and even more so during challenging periods for performance. At the same time, we make it clear that we will not accept interference in our investment processes from external parties (except specific agreed mandate restrictions), regardless of their size or importance to our business, and are responsible for ensuring that any possible conflicts of interest are managed with our clients at and from the outset.

Ethics and integrity

High ethical standards and integrity are at the core of our client focus. As part of this, we make investment decisions based on rigorous and thorough in-depth analysis, and only invest when we have high conviction. We are agnostic as to the components of our benchmark indices, and we only invest in companies that we believe can sustain growth over the long term. Our investment decisions are fully transparent and we write everything down so a full audit trail is available for our clients to access. We recognise that we will make mistakes, are honest about those mistakes, and do what we can to learn from them.



Teamwork

We recognise that collaborative teamwork raises the probability of finding the best long-term investment opportunities for our clients, and lowers the probability of making mistakes. Our culture means that we are collectively responsible for success and failure, and when mistakes happen, we recognise that they are not made by an individual but by the team. We ensure knowledge sharing within and across teams. On the investment side, this ensures that our investment teams have a deep understanding of the rationales for their portfolio holdings and regularly challenge each other on their levels of conviction. At the same time, we have measures in place to help avoid “groupthink”, and have designed our investment processes to minimise the risk of our investment managers making decisions based on emotion, or “falling in love” with a stock, as this can have a detrimental effect on investment outcomes.

GuardCap places huge importance on a thorough hiring process in order to find exceptional people who fit the culture of the group. Finding team players without egos is a central element of the interview process and we have rejected many candidates for demonstrating selfish ambition. The hierarchy is intentionally flat and roles are almost identical across our investment teams, with all members of our Global Equities team possessing the title of “Investment Manager”. All of our investment managers are analysts – this helps to avoid an “us and them” mentality, and the blurring of the lines makes the operation of a team-based approach much easier. With that said, we recognise that some hierarchy has to exist to provide leadership when it comes to portfolio construction.

We place significant importance on hiring and maintaining teams made up of the most diverse and talented employees that we can find. All teams within the business, including our investment teams, are made up of individuals across a range of ages, nationalities, professional experience, education and qualifications. Our investment teams are balanced by gender (50% women, 50% men) and we believe that diverse demographic, educational and experiential characteristics enhance the diversity of opinions, which, combined with the investment processes of our investment teams, provides significant insight and adds depth to our discussions with management teams across the world.

We strongly believe that our focus on teamwork and diversity is integral to our culture and is of intrinsic value to the success of our business and ultimately, our clients. Furthermore, as mentioned previously, there is a strong alignment of interest between our investment managers and our clients, with all of our investment managers investing significant amounts of their personal capital in their respective strategies.

Excellence

We hire individuals with a strong work ethic and we strive for excellence, recognising that the higher the quality of our analysis the more likely we are to succeed in meeting the objectives of our clients. Our teams follow well-honed, disciplined investment processes that focus our efforts and we do not cut corners: it is extremely difficult and time-consuming for a company to make it into our portfolios, and typically takes between 6-15 months to take a new idea through the investment process.



In terms of the relationships we have with our clients, we are responsive and humble in our dealings, and recognise that excellence in client service is a key dimension required for the success of our business. We are committed to our investment teams spending at least 90% of their time on investment activities, and therefore have a dedicated Client Service team, which is responsible for communicating with clients on an ongoing basis.

Equally, our Operations, Risk and Compliance teams perform to the highest standards in meeting operational and regulatory demands.

Risks to GuardCap's Culture

We recognise that there are potential risks to GuardCap's culture, including but not limited to, business risks and relationship risks. Business risks could include financial pressures, such as a global recession, market crash, a prolonged market decline, a prolonged period of underperformance and client losses, interference in the investment process by management, marketing, distributors and clients, a lack of training of employees, and operational errors. Relationship risks could be internal, including poor leadership, an existence of egos, a lack of teamwork, a lack of respect for someone else's contribution, finger-pointing, complacency and personal greed, or external, including the relationships we have with our clients.

We fully recognise that short-term business objectives imposed during these times could result in a style drift and changes to the core philosophy, process and culture, and as such, we remain steadfast in our commitment to making decisions for the long term, with our clients' needs at the forefront.

In 2020, and during the initial months of the pandemic, we worked hard to maintain our culture, and were very aware of the risks that physical dislocation could have on our culture and business more widely.

Outcomes

In terms of how effective we have been at serving the best interests of our clients and beneficiaries, we have continued to grow our assets consistently since the inception of GuardCap and both of our strategies have outperformed their respective indices, with lower volatility than their indices (as defined by the standard deviation) over the last five years*. Furthermore, there have been no leavers from GuardCap since it was founded in 2014**. This would not have been possible without our culture of "Pursuing teamwork excellence in a fun environment for the benefit of our clients", which promotes good stewardship and helps build client trust.

We continually look to enhance our stewardship activities and welcome feedback from clients on a continual basis.

*Gross of fees for the Guardian Fundamental Global Equity and Guardian Emerging Markets Equity composites, in USD, over five years to 31 December 2020. Past performance is not necessarily indicative of future results.

**Does not include individuals on probation.



Principle 2

Governance

An integral part of our commitment to achieving superior returns for our clients is investing in the highest quality companies around the world that are capable of achieving long-term sustainable growth. We are acutely aware that if we find ourselves unable to meet this commitment, our business will likely suffer. It is for this reason that we have stringent processes in place, to ensure good governance within our investee companies, and within GuardCap itself.

Resources

GuardCap Board of Directors

GuardCap's Board of Directors has ultimate oversight and accountability for ensuring effective stewardship across the Firm. Our Board of Directors is made up of George Mavroudis, President and Chief Executive Officer (CEO), Guardian Capital, and Steve Bates, Chief Investment Officer (CIO), GuardCap, who have an average of more than 30 years' experience across a range of industries, not limited to investment management. Arieta Koshutova, GuardCap's Chief Operating Officer (COO), is Secretary to the Board, and equally has a long experience in the investment industry.

In his role as CEO, Guardian Capital, George is responsible for growing Guardian's business over the long term. It is his responsibility to satisfy the requirements of shareholders and regulators, which is only possible through delivering strong investment returns for our clients. George reports to Guardian Capital's Board of Directors.

In his role as CIO, GuardCap, Steve is responsible for ensuring that our investment teams adhere to our stated investment philosophy at all times, and takes on a wider business management role. His more than 40 years' industry experience means that he understands how a business needs to operate in order to sustain its competitive advantage over the long term. Steve reports to George Mavroudis and Denis Larose, CIO of GCLP.

In her role as COO, Arieta Koshutova is responsible for ensuring that GuardCap is compliant with all applicable rules and regulations, as well as ensuring a smooth and effective operational set-up. Arieta's experience in a number of senior roles within government pension funds enables her to understand the importance of good governance from both an asset manager and asset owner perspective. Arieta reports to Steve Bates, CIO, and to Matt Turner, Head of Guardian Compliance, who in turn reports to Guardian Capital's Board of Directors.

GuardCap Operations Committee

GuardCap's Operations Committee is made up of Steve Bates, CIO, Arieta Koshutova, COO, Michael Boyd, Head of GuardCap Global Equities and Michael Hughes, Head of GuardCap Client Service. The committee meets fortnightly unless under extraordinary circumstances (during the first 12 months of the COVID-19 pandemic it met weekly). The topics covered are:

- 1) Financial review (review and analysis of monthly management accounts, revenue and cost estimates)

- 2) Sales and marketing review (update on client gains and losses, current pipeline, relationship management activities and ESG developments)
- 3) Operational review (update on compliance and regulatory reporting, general management, legal, human resources, information technology and updates regarding GuardCap's parent)
- 4) ESG review (update on ESG Working Group and noting any regulatory developments)
- 5) Investment review (update on investments, valuation and any concerns around these areas)

Other Committees

There are four formal committees employed by GuardCap's parent company, Guardian Capital, to ensure consistency and adequate risk control across the firm and its investment strategies. Steve Bates and Arieta Koshutova report to executives at Guardian Capital, who represent their interests at these committees and communicate outcomes. The four committees include:

Governance Committee

On a quarterly basis, the company reviews and provides follow-up instructions based on the Quarterly Governance Oversight Report. This report includes details on a variety of topics including: deviations from client policies, risk metrics, soft dollars and directed commissions, proxy voting, asset mix, personal trading, failed trades, etc.

Asset Mix Committee

The Asset Mix Committee's purpose is to oversee the management of multi-strategy client portfolios. It specifically addresses asset mix composition/allocation and areas for advice or communications to clients as it relates to the make-up of their portfolios. Meetings are held at least quarterly, but may occur more frequently if required. Committee decisions are recorded in formal meeting minutes and archived.

Broker Selection and Allocation Committee

This committee reviews all brokerage relationships and commission expenditures for the prior period. The committee discusses any concerns that they have relating to a brokerage firm's financial health, regulatory compliance, operational ability, or inability to provide a value added service. The committee has the right to suspend trading with a particular firm or investigate any questions that have been raised. In addition, the committee reviews the total commission dollars (or trading volume) allocated to a particular brokerage firm and considers whether any unusually high concentrations need to be investigated to ensure that they are justified based on value added by the brokerage firm or other reasonable circumstances. The committee also reviews the appropriateness of the commission rates paid, and meets quarterly.

Risk Oversight Committee

The Risk Oversight Committee oversees the various investment strategies offered by GCLP (including all subsidiaries) in the context of the investment-related risks embedded in these strategies. It specifically addresses the potential risks of excessive losses for clients invested in these strategies and any related corporate risks should clients suffering such losses seek compensation. This committee meets quarterly.



Investment Teams

In addition to GuardCap's Board of Directors and the aforementioned committees, our investment teams are responsible for ensuring good stewardship and the implementation of responsible investing for their respective strategies. As such, our investment managers are responsible for including environmental, social and governance (ESG) considerations in their analysis, and a company's "Foundations for Sustainable Growth" ("FSG") is one of the 10 investment criteria that we ascertain before investing in a company.

Michael Boyd and Giles Warren, two investors on GuardCap's Global Equities team, have worked together on the same strategy for over 20 years. Orlaith O'Connor joined the team in 2015 and Bojana Bidovec joined the team in 2016. Orlaith and Bojana bring rich and diverse experience and perspectives to the team, and all four team members collaborate throughout the investment process, and challenge each other in terms of their investment research and decision-making.

Similarly, GuardCap's Emerging Markets Equities team is made up of Ed Wallace and Joris Nathanson, who have an average of 20 years' industry experience. Ed and Joris work closely with Alice Yin, Investment Manager, and Dexu Xu, Investment Analyst. Clive Lloyd, one of GuardCap's founders, continues in his role as Senior Advisor.

Performance reviews for GuardCap's investment teams have been designed to encourage good stewardship across our investment activities. Active ownership of our companies is a key contributor to the long-term success of our strategies, and consequently to investment managers' remuneration.

All senior managers and investment team members have a responsible investment objective in their development plans and are encouraged to involve themselves in training on related topics. In addition to ongoing professional development, our investment teams are provided with periodic training on ESG matters and the importance of responsible investing – for example, in terms of understanding the requirements of the Sustainable Financial Disclosure Regulation (SFDR) and the importance of incorporating climate change considerations into investment decision-making. Individuals are assessed and remunerated based on how well they have performed against each of their objectives in any given year, and taking an active approach to ESG and stewardship is part of that assessment.

The compensation of each member of our investment teams is made up of two components: a base salary and an incentive compensation bonus (ICB). The base salary is reviewed every year and adjustments are made to ensure we remain competitive. It is expected that the bulk of each individual's compensation consist of ICB disbursements. There is therefore a formulaic link between the overall wellbeing of the investment strategies and the compensation received by the individuals, which makes them like shareholders in their own strategy and goes beyond a narrow interest in performance over any given period. We recognise that the wellbeing of our strategies depends on the performance of those strategies, but it also depends on continuing to fulfil our clients' expectations as to how their money is invested. Our expectation is that long-term consistent outperformance will lead to a steady revenue stream over the long term, bringing stability to the ICB year-on-year.

Responsible Investing Team

GuardCap has a dedicated Manager, Responsible Investing, Karen Paton, who is independent from, but works closely with, all teams within the business, including client service, investments, compliance, risk and operations. She is involved in a number of responsible investing initiatives, including working with senior management to set objectives and targets at the firm level, establishing an industry-leading structure in terms of client reporting, and working with the investment teams to ensure best practices are being communicated and implemented. Karen reports to the Head of Responsible Investing for Guardian Capital, Michele Robitaille, as well as the Head of Client Service at GuardCap, Michael Hughes.

ESG Working Group

In 2020, GuardCap established a dedicated ESG Working Group, which is comprised of members from all teams within the business and meets at least once per month to discuss relevant developments and action points. The overall objectives of the ESG Working Group are as follows:

- Identify “best practice” in terms of responsible investing to ensure our approach is competitive and aligned with the expectations of investors and the requirements of regulators.
- Research and understand the different responsible investing initiatives, with the objective of issuing support or becoming a signatory to those that are most aligned with our values and long term strategy.
- Implement a strong reporting framework to ensure we are transparent with our clients, for example, through using case studies and reporting on our engagement activities.
- Ensure client expectations are shared and understood between our client teams and investment teams, with input from an operational and compliance perspective, as well as shared with the resources of our parent company, Guardian Capital, and vice versa.
- Identify new systems and technology that could help support our investment research, risk management or client servicing efforts.

Technology

GuardCap’s investment research is proprietary and conducted in-house with very little input from the sell-side. Investment in systems and support for research is readily available, and our teams will use commissioned external research when needed. For ESG research and analysis, we use Bloomberg, ISS, RobecoSAM, Sustainalytics and Trucost.

Service Providers

For our proxy voting activities, we use ISS and Broadridge. In 2020, we voted on 99% of proposals, taking the recommendations from ISS into account, and placing our votes through Broadridge. We review these providers on at least an annual basis to ensure they are meeting the requirements set out in the Service Level Agreements (SLAs). For more details, please refer to Principle 8.



Policies and Processes

All policies that outline our approach to stewardship are subject to review on at least an annual basis, and must be approved by GuardCap's Operations Committee and Board of Directors. We continually review our stewardship processes in line with client expectations, industry developments and regulation.

Outcomes

GuardCap's approach to governance, resourcing and remuneration has remained consistent since our founding, and we believe the structures we have in place enable the effective oversight and accountability of our stewardship activities. Without sufficient governance, resourcing and incentives in place, we would be unable to meet our core objective of achieving superior returns for our clients.

More specifically, during 2020, we subscribed to both Trucost and Sustainalytics to further enhance our access to sustainability-related data, and hired an additional four individuals across our investment, client service and operations teams. We will continue to monitor our existing structures, including the effectiveness of the Board and management committees, and to invest in resources that further our stewardship efforts.



Principle 3

GuardCap recognises that stewardship activities and company engagement can on occasion lead to potential conflicts of interest. In compliance with FCA rules, we take a risk-based approach to identifying areas of potential conflicts of interest, to managing and mitigating conflicts of interest, and to considering all conflicts when designing and implementing policies and procedures.

Some potential conflicts of interest include:

- conflicts arising as a result of the ownership structure of our parent company
- if there is an incentive to favour one client over another
- where a client has an association with one of our investee companies, such as the pension fund of a listed company
- where we vote at a meeting which has a shareholder proposal submitted by a client
- if an individual or team is involuntarily exposed to material non-public information (MNPI)

To ensure that all potential conflicts of interest are identified and managed appropriately, GuardCap has a Conflicts of Interest Policy. The Policy outlines the importance of our governance structures, policies and processes in managing potential conflicts. In conjunction with our Compliance Manual, employees are given detailed guidelines for issues relating to proxy voting, MNPI, personal account dealing, outside business interests, gifts and entertainment, etc. Employees must complete annual compliance declarations as to their adherence to the Firm's compliance policies and procedures, including our Conflicts of Interest Policy and Compliance Manual. Our Conflicts of Interest Policy is available on [here](#).

The Policy is reviewed on at least an annual basis by our Compliance team to identify any additional procedures that might be performed to improve the management of potential conflicts of interest.

In terms of proxy voting, it is GuardCap's policy that votes are cast in the best interests of the client that 'owns' the vote, however, we are aware that conflicts of interest could arise when voting for multiple client accounts. For this reason, we would not vote shares in one client's account to the detriment of another client. GuardCap's Proxy Voting Policy is available [here](#).

Effectiveness

To date, we are not aware of having had any conflicts of interests relating to our stewardship activities. If a material conflict were to be identified, this would be escalated to Arieta Koshutova, COO, GuardCap, and discussed with the relevant employee(s). This discussion would determine how the potential conflict of interest should be handled in the best interest of the affected client(s).



Principle 4

We have a healthy paranoia about the risk of the impact of disruption to our investments, and to protect our clients' capital, we recognise the need to understand all threats in the context of our investee companies and the financial system more broadly.

We consider the potential impact of the following risks as part of our investment processes:

Business Risk

The risk that a business will suffer a significant loss of value because of an unforeseen major trading loss, accounting error or fraud, a fundamental flaw in its business model, the advent of a new technology which renders its core product obsolete and other kinds of negative developments specific to a business. We aim to alleviate this source of risk through investing in high quality, large, stable businesses, with proven high quality management teams, a prudent approach to financial leverage and an orientation to strong ESG practices. Furthermore, well-managed companies with diversified businesses and conservative balance sheets can be better placed to withstand systemic risks arising from the failure of financial institutions, such as those that occurred during the global financial crisis of 2007-08.

Valuation Risk

The risk of investing in a company at a point where its valuation is excessive, leaving limited upside even if things continue to go well, and considerable downside if, for example, the company announces disappointing earnings. Our investment processes involve the use of fundamental intrinsic valuation techniques that aim to protect against paying too much for a high quality growth company. Looking at the long-term (50 years if available) stock price and earnings growth of companies shows that over time total returns closely track earnings per share (EPS) growth. This relationship, however, breaks down if the purchase price is at a level that already discounts all (or more) of the projected long-term earnings growth. Our valuation approach, which is based on a combination of the Discounted Cash Flow (DCF) model and Terminal Price to Earnings (P/E) model, is designed to prevent overpaying – i.e. investing in overvalued stocks.

Economic Risk

This refers to the market-wide risk that a company or group of companies can lose significant value in the event of an economic downturn. A key tenet of our investment process is that we seek to invest in high quality companies with secular growth tailwinds and limited sensitivity to economic cycles. We assess how the company has performed in previous downturns, whether the company is exposed to secular growth industries and whether the company's competitive advantage is potentially under threat. We also aim to ensure that the company is well diversified in terms of the markets it serves, reducing reliance on any single set of economic variables.

Reputational Risk

We recognise the importance of a company's reputation to its continued success, and believe that a thorough assessment of a company's culture is integral in pre-empting and managing this kind of risk. A number of our investment criteria, including a company's track record of quality growth, sustainable competitive advantage, proven management team and FSG characteristics, help reduce the likelihood that any of our businesses will be subject to major reputational fallouts.



Climate Change Risk

Climate change poses a systemic risk and we expect that it will have far-reaching implications across industries, the financial markets and global economy. We recognise that the physical and transition risks associated with climate change will have a material impact on our investee companies. As such, we try to assess the preparedness of the companies within our portfolios for the transition towards a net zero economy. To do this, we assess a number of factors including their climate commitments and plans for achieving those commitments, their assessment and management of the perceived physical and transition risks in their operations and supply chains and their investment in climate solutions and resources.

At the same time, our portfolios have no exposure to energy, mining or commodity chemicals, because the companies in these sectors typically fail a number of our quality and growth criteria, due to characteristics such as high cyclical, low differentiation, high capital requirements and regulation, among others.

To help protect our investors and formalise our existing investment approach, we have formally implemented company-wide exclusions and seek to exclude direct investment in corporate issuers that are involved in the manufacture or production (subject to a specific revenue threshold*) of activities including but not limited to:

- i. Controversial weapons (to include anti-personnel landmines, cluster munitions, biological weapons and chemical weapons);
- ii. Firearms or small arms ammunition;
- iii. The extraction of fossil fuels and/or the generation of power from them; and
- iv. Tobacco products

*Specific revenue threshold applied is 5% based on a company's annual report.

Social Risk

Our investment teams look at a number of social factors, including but not limited to, gender diversity and equality, employee retention, health and safety, human rights, child labour, and their status (or otherwise) as a signatory of the United Nations Global Compact. These factors are viewed in light of our data providers, which are used to identify potential issues or areas of controversy (red flags), which will be assessed in more detail. The assessments and conclusions are documented throughout the analytical stages and included in the Total Immersion Analysis or Initiation reports. We would view any significant failings in these areas as a compromise to a company's ability to achieve long-term sustainable growth and it would not make it through our due diligence process or be included in our portfolios.

The aforementioned risks are assessed during the due diligence process and through maintenance research, as well as taken into account at the pre-trade modelling stage, which helps, in addition, to ensure:

- Diversified geographic revenue exposure
- Diversified secular trend exposure
- Avoidance of inadvertent exposure to highly correlated stocks



Case Study: COVID-19 Pandemic

We recognise that 2020 was one of the most challenging periods in history for individuals, businesses and governments across the world. The COVID-19 pandemic demonstrated the effects of systemic risk in practice, with widespread consequences for the financial markets and global economy.

We observed that digital transformation accelerated across industries and issues such as business purpose, supply chain disruption and employee wellbeing rose to the forefront of sustainability-related discussions between investors and investee companies, and we continued to adapt our business, investment processes and portfolios through this time.

In March 2020, our investment teams conducted a thorough assessment of their portfolios to understand the potential impact of COVID-19 on their portfolio holdings, in particular any changes caused by the pandemic to the long-term secular growth trends that our investee companies are exposed to. Our investment teams also analysed the potential short-term impacts to the financial positions of our investee companies and conducted credit analysis to identify any potential areas of stress in our portfolios. In April 2020, two of our investment managers wrote "DORA Day" papers entitled "*COVID-19: The Long Term Implications*" and "*Post COVID-19 World*". These papers identified what we believed would be the most impactful short and long term implications for governments, consumers and corporates, and for the companies within our investment universes and portfolios. DORA Days are described in more detail later in this section.

Throughout this time, we remained resolute in our focus of achieving superior returns for our clients, and of providing exceptional client service. We ensured that our employees were able to work from home and had the resources they needed to do so effectively. We established weekly 'town hall' meetings during which our team leads would spend time providing a business update, and the remainder of the time was dedicated to our employees sharing anecdotes and stories from their own lives during the pandemic.

We believe that our commonality of purpose and culture of "Pursuing teamwork excellence in a fun environment for the benefit of our clients" enabled us to weather the beginning of the pandemic, and during that time, were able to grow our assets from USD 3.2 billion (as at 31 December 2019) to USD 8.6 billion (as at 31 December 2020).

DORA Days

We recognise that disruption to a company's business is typically caused by external factors, and that in-depth analysis of a company itself is not sufficient to comprehensively assessing potential long-term threats and opportunities. In order to identify competitive threats and potential risks (systemic or otherwise) to the companies within our portfolios, six times a year, our investment teams conduct a "DORA Day". DORA is an acronym for "Day Out Researching Anything".

In the weeks leading up to a DORA Day, two members of our investment teams write individual papers on a topic of their choice. During the DORA Day, the teams discuss the papers and conduct a team-building activity. We believe that our library of more than 80 DORA Day papers enables our teams to understand the wider context for investment in a company, and that this constitutes a clear investment edge over our competitors. Of the more than 80 papers written over the past five years, approximately 40% of them cover an element of ESG (i.e. 13 papers on the environment, 27 on social issues and 1 on governance, with some overlap) (as at 31 December 2020).



Initiatives

GuardCap is a signatory of the United Nations-supported Principles for Responsible Investment (PRI) and a member of the UK Investment Association. Through these initiatives, we adhere to the relevant industry standards and guidelines with the objective of promoting sustainable investment practices. We take our commitment to these organisations seriously and continue to improve our stewardship approach based on their recommendations for best practice. For example, we base our annual objectives for stewardship in light of our scores from the PRI.

In 2020, Alice Yin, an investment manager on our Emerging Markets Equities team, participated in the CFA UK's Negative Rates Working Group and helped produce a paper entitled "*Negative Rates & Negative Interest Rate Policy: A study of the consequences for investment professionals.*" Alice worked with other members of the working group and attended a number of meetings (in-person and virtual) to co-write the paper. Specifically, she focused on the Equities section, working alongside the Chair of the Working Group, and helped produce a number of videos promoting the paper. The report identified a number of financial market distortions potentially caused by negative rates and negative interest rate policies, and concluded that investment professionals should be aware of these distortions and raised six key questions that investment professionals should consider, including how they communicate return expectations and risk levels effectively to their clients, as well as how risk management and risk models should be adjusted in this environment. As part of the CFA UK's Professionalism Workstream, we believe Alice's contribution helped towards promoting the continued improvement of the functioning of the financial markets.

The report can be accessed [here](#).

Furthermore, GuardCap participates in a large number of seminars, webinars and other events organised by our distribution partners for the benefit of client advisors. These distributors include leading wealth management and bank networks around the UK, Canada, Europe and Australia. During these sessions, the functioning and shortcomings of financial markets are often discussed, as is the importance of good corporate stewardship. We frequently explain our approach to stewardship and highlight the fact that we vote in all resolutions and all general meetings of investee companies, giving examples of where we have on occasion voted against resolutions proposed by management.

As we continue to grow our business both in terms of assets under management and resources, we will look to deepen our involvement in external initiatives.

Effectiveness

Our investment teams focus their time on a small number of "High Confidence Pool" or "Buy List" companies (approximately 50 per team), rather than diluting their time and effort over a large number of companies. This enables them to have an in-depth understanding of the risks their companies face, and, in addition to our strong focus on risk management, investment criteria and processes, means that our portfolios are as protected as they can be from foreseen and unforeseen risks.

In continuing to adapt our business and processes in the face of COVID-19, and in continually enhancing our investment processes to account for climate change, we are confident that we can continue to identify and respond to market-wide and systemic risks to protect our clients' capital and to help promote a well-functioning financial system over the long term.

Principle 5

GuardCap reviews and updates policies relating to compliance and investment on at least an annual basis, which includes monitoring and assessing the adequacy of each policy to enable effective stewardship in addition to meeting regulatory obligations. For example, during 2020, GuardCap updated its policies including its Conflicts of Interest Policy and Compliance Manual, and published an Engagement Policy and a Modern Slavery Statement. Policy development is overseen by the Compliance and Operations teams, with assistance from GuardCap's Manager, Responsible Investing and the ESG Working Group, as needed. Any changes made to policies are included in a summary to the Board of Directors, which are reviewed and approved on an annual basis. These policies are publically available on GuardCap's website along with proxy voting information, which is disclosed on the website of our parent company, Guardian Capital.

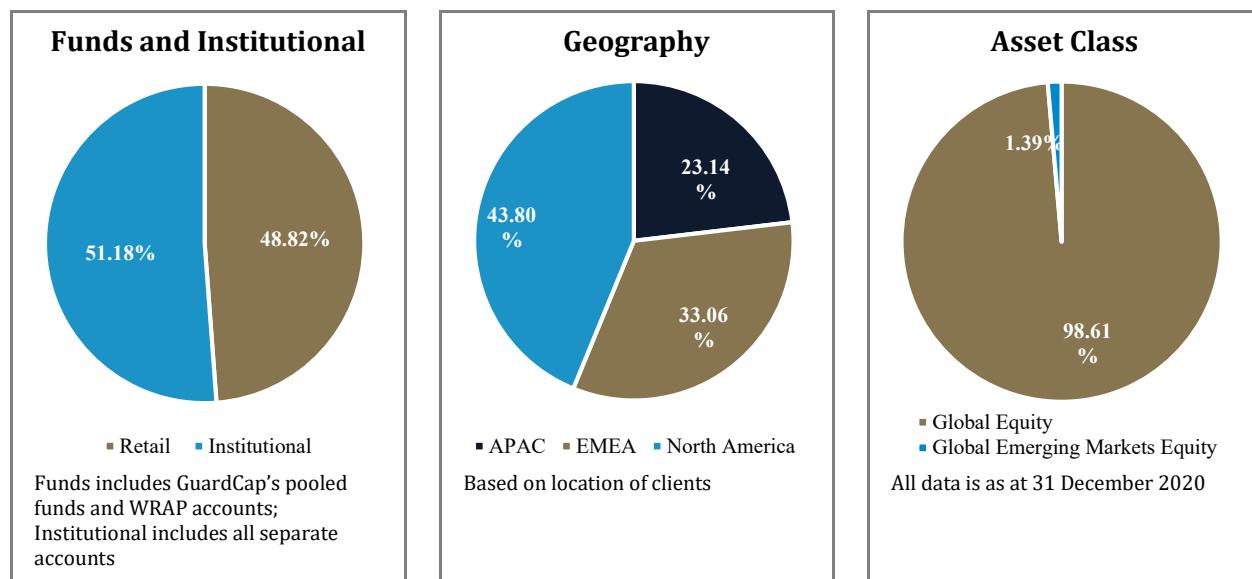
GuardCap receives external assurance over the effectiveness of its compliance policies through the use of a third party compliance advisor, Robert Quinn Consulting. This third party firm is able to provide an external and unbiased view of the contents of the Firm's compliance policies and procedures. With reviews and monitoring performed by both internal and external sources, GuardCap seeks to ensure that stewardship reporting is fair, balanced and understandable as well as leading to the continuous improvement of our stewardship policies and processes.



Principle 6

GuardCap is focused on managing money through separate accounts and pooled funds for endowments, foundations, insurance companies, pension funds, religious and other institutions, as well as for asset managers, family offices, private banks, retail banks, wealth managers and other financial intermediaries. Our clients are based across North America, Europe, the Middle East and Asia Pacific. As at 31 December 2020, GuardCap had assets under management of USD 8.6 billion across two strategies: GuardCap Global Equity and GuardCap Emerging Markets Equity.

GuardCap's investor base is summarised in the following charts:



We endeavour to build long term relationships with clients who share our investment philosophy and beliefs, i.e. that building concentrated, high conviction portfolios (20-30 companies) with double-digit long term growth in earnings and cash flows, should translate into similar absolute returns, providing we have not overpaid for the company (valuation discipline is key). This absolute return objective, if achieved, would be above the benchmarks. We also aim to achieve these superior returns with lower risk (lower volatility of returns) than the benchmarks over the long term.

From the outset, we communicate our investment approach and objectives to clients, and endeavour to maintain an ongoing dialogue with them regarding the performance of our strategies and the companies held within our portfolios. The ongoing dialogue usually takes the form of emails or telephone calls, and we hold formal update meetings, typically in-person or via video call, on a quarterly or annual basis, depending on their requirements. During these meetings, we encourage an open dialogue and attempt to address their questions or concerns regarding their portfolio and the financial markets more generally. In addition, we provide monthly newsletters and quarterly reports, which include ESG ratings and portfolio commentary, and share our engagement activities with clients upon request.

Proxy Voting

In terms of proxy voting, we recognise that this is an important right of shareholders and where we have discretion to vote proxies for our clients, we will vote those proxies in the best interest of clients and in accordance with our policies and procedures. For clients that do not want proxy voting for their account, and have indicated this in writing, it is GuardCap's policy to abstain from voting proxies.

All proxies notified to the Firm by its clients' custodians will be referred to the investment managers who are authorised to vote proxies, where applicable, on behalf of clients. Some of our clients wish to be actively involved in the proxy voting process, in which case, we will work with them to discuss and ascertain a position ahead of time. More specifically, for separate account clients who have opted to vote their own proxies, we typically inform them of our proposed voting intention and rationale ahead of time, and welcome any questions or feedback they might have. Once a vote has been placed, our clients will typically inform us of how they voted and this information is shared with our investment teams. For clients invested in our pooled funds, we would take on board any views or concerns they might have, however, we are cognisant that any individual views may present a conflict of interest or not be in the best interests of all shareholders within a fund. The final voting decisions are therefore solely the responsibility of our investment teams, and all votes are made in line with our Conflicts of Interest and Proxy Voting policies.

To assist with the proxy voting process, we subscribe to ISS, but we do not automatically follow their recommendations. Our votes are the result of a case-by-case review by our investment managers.

Our proxy voting activities are fully documented and can be accessed [here](#).

Outcomes

With ever-increasing scrutiny and disclosure requirements being placed on asset managers we recognise that it is more important than ever to be transparent with our clients and build on our relationships with them. In line with this, we meet with clients regularly, in person or via videoconference, both to update them on our investment decisions, and to discuss any questions or concerns they might have. For example, a number of our clients have asked that we send them summaries of our engagement and proxy voting activities each quarter, so we have created tailored reports to meet their needs. Whilst we have been able to meet client expectations in terms of reporting, we plan to enhance our website and reporting capabilities over the months ahead.

Furthermore, we have seen very little in terms of client outflows for our strategies since the inception of GuardCap, with very strong net inflows over the past five years. In addition, our strategies have outperformed in most market conditions, particularly in falling markets, and we believe this is set to continue.



Principle 7

An analysis of a company's ESG issues forms a key part of every investment decision. We believe that a comprehensive analysis of a company's business and growth potential has to incorporate all material risks and opportunities, including ESG-related risks and opportunities. This analysis is at the core of our investment process with a focus on whether and how these risks and opportunities will affect the long-term sustainability of the company's competitive positioning and capacity for growth.

We seek companies that demonstrate good corporate governance practices in terms of management structure and remuneration processes, high quality reporting and disclosure and strong environmental and social commitments. For example, if a company is viewed to be irresponsibly polluting the environment or mistreating its employees or the communities in which it operates, we would view this as a headwind to the company's ability to sustain superior growth over the long-term and it would not make it through our due diligence process or be included in our portfolios.

Our investment approach steers us away from the most environmentally damaging and controversial sectors such as energy, mining and commodity chemicals, because the companies in these sectors typically fail a number of our quality and growth criteria, due to characteristics such as high cyclicity, low differentiation, high capital requirements and regulation, among others. We have exclusions on companies manufacturing controversial weapons, firearms or small arms ammunition, companies that extract fossil fuels or generate power from them, and tobacco products (specific revenue threshold applied is 5% based on a company's annual report.)

We use data from external ESG data providers, such as Bloomberg, ISS, RobecoSAM, Sustainalytics and Trucost, to see whether they highlight any areas of controversy in a company's ESG practices. If they do, we conduct further analysis on these issues to assess the implications. In some cases, our assessment and conclusions might differ from those of the external providers, and on occasion, we have contacted these providers to ask questions of their methodology and approach. At the same time, we aim to go well beyond simplistic "box-ticking" and recognise the importance of using a number of sources to draw more reliable and complete conclusions.

As such, we take an absolute approach to assessing companies' capacity for long-term sustainable growth and companies with high ESG risk profiles typically drop out of our investment processes in the early stages.

We assess the alignment (or conflict) of the companies in our portfolios with the United Nations Sustainable Development Goals (SDGs). We believe that companies with products and/or services that conflict with the SDGs or trends towards social and environmental responsibility will not meet at least two of our key criteria – 1) secular growth – as they will likely face headwinds trying to grow against the prevailing developments, 2) and FSG. Several of our DORA Day papers cover topics that discuss factors related to the SDGs and responsible investment – for example, in 2020, our investment teams wrote papers on Responsible Consumption and Production (SDG 12), Solar Power and Climate Change.

Furthermore, we expect that as companies publish more detailed and consistent data, the assessment of more of these aspects will become more relevant and insightful. Our assessments and conclusions on ESG factors are documented throughout the research process, and full examples are available to clients upon request.



Principle 8

GuardCap conducts reviews with our service providers annually or at the contract renewal date, depending on the nature of the relationship. This helps ensure consistency across our relationships and that we continue to receive a high quality of service from all of our service providers.

For our investment activities, we use data from external data providers including Bloomberg, ISS, RobecoSAM, Sustainalytics and Trucost. In some cases, we would expect that our assessment and conclusions might differ from those of our service providers, however, our investment teams are able to check the accuracy of data by cross-referencing it against other available sources.

For proxy voting we use ISS and Broadridge. ISS provides proxy analyses and recommendations. Our investment managers take these recommendations into consideration, and we cast our own votes using Broadridge, so we control the process and make sure that voting is executed in line with our policies.

Any issues identified in the services provided to GuardCap would be raised with our Operations and Compliance teams, and ultimately our COO. To date, we have not experienced any material issues with service providers but if any issues became apparent, we would address these with the service provider immediately. If improvements in the services were unable to be achieved then we would consider terminating the relationship.



Principle 9

Overview

Active ownership is deeply embedded in our investment philosophy and we vote on every resolution and corporate action proposed by our companies. If a company is engaged in a practice that concerns us, we will engage with the company on this issue, seek to learn more about it and encourage positive change. If successful, we believe this enables us to create additional long-term value whilst taking responsibility as a shareholder to encourage companies to improve their practices.

We apply the same approach to all of our funds, assets and geographies, but take into consideration the wider industry and geographical context. For example, one of our Japanese holdings has a very low number of women on the Board and in senior management positions, and whilst we are continuing to press for positive change, we recognise that the underrepresentation of women in Japanese companies is cultural. We therefore need to take a considered approach to our engagements, as we recognise that 'one size does not fit all'.

Identifying Candidates for Engagement

In terms of identifying candidates for engagement, our investment teams typically identify ESG issues through their own proprietary research and "FSG" scoring and analysis. In terms of prioritising our efforts for engagement, we will assess among other factors, the materiality of the issue and the likelihood of success of our engagement efforts.

Methods of Engagement

Our engagements typically take the form of ongoing dialogue with company management through regular one-on-one meetings at a company's headquarters or GuardCap offices, or increasingly since the beginning of the COVID-19 pandemic, through video calls. Occasionally, in the first instance, we may also choose to email a company's Investor Relations team.

Escalation

Should we identify an issue or area of concern, we would at first speak with the company as part of an initial 'fact-finding' type meeting. During this meeting, we would seek to find out more about the company's plans to rectify the issue(s), and if we remain unsatisfied with their response over one or a number of meetings, we may choose to escalate the engagement through voting against the company at AGMs or EGMs and/or applying our Engagement Framework.

A summary of our Engagement Framework is as follows:

1. Devise a plan: includes an assessment of the key issue(s), the severity or materiality of the issue(s) and the potential risks involved (regulatory, reputational etc.), the likelihood of success, the size of our portfolio holding, recognised best practice, target outcome and key person(s) of influence.
2. Engage: includes a more focused meeting with the company during which we would raise our concerns and suggest possible routes to best practice.
3. Track progress: assess progress of engagement and actions taken by management.



4. Ascertain the need for further engagement: decide if there is a need to escalate the issue further and assess if we need to change our approach or involve other parties.
5. Assess the potential impact of the outcome on investment decisions: in instances where our engagements do not progress in the direction that we believe is in the best interests of our clients, we would consider partial or full divestment.

Engagement Outcomes

Two examples of our engagement activities and outcomes in 2020 include:

Company	Intertek plc
Sector	Industrials
Country	United Kingdom
Strategy	Global Equities
Objective	To find out more about the CEO's remuneration, board composition and management more generally.
Activity	In September 2020, our Global Equities team met with a Non-Executive Director, Executive Vice President Human Resources, and Group Company Secretary, Intertek. We asked questions around the philosophy and history of executive remuneration at the company and discussed any developments over the past five years. We then discussed our rationale for voting against the company's remuneration policy and suggested potential paths towards aligning with best practice. We went on to ask questions about the culture and diversity of the Board.
Outcome	We ascertained that we would have a follow-up meeting with the company in 2021, during which we would ask more questions on the aforementioned topics and monitor developments in these areas.

Company	Yum China
Sector	Consumer Discretionary
Country	China
Strategy	Global Equities and Emerging Markets Equities
Objective	To better understand the issues that could affect the sustainability of the company's future growth, with a focus on environmental, social and corporate governance matters.
Activity	In November 2020, both our Global Equities and Emerging Markets Equities teams met with a number of Yum China's senior executives, including the Chief Supply Chain Officer, Chief People Officer, Chief Legal Officer and a Senior Director, Investor Relations. Material issues that were covered included environmental impact, food safety, the prevention of modern slavery in the supply chain, employee relations, Board composition, regulatory considerations and public health matters such as nutrition and obesity.



Outcome The process increased our understanding of and confidence in the company's approach to the issues discussed. We also noted that further progress was desirable, especially in relation to certain environmental and social matters. We committed to continue to engage with Yum China's management team on the factors that influence the long-term sustainability of the company's growth.

GuardCap's Engagement Policy is available [here](#).

Summary

The low turnover and long holding periods of the companies within our portfolios have enabled us to build strong long-term relationships with our investee companies. In addition, the growth in assets for our GuardCap Global Equity strategy has positioned us as sizeable owners in a number of our investee companies, which means we have increasingly good access to company management. Because management teams expect us to hold their company's shares for a long time, they are generally willing to engage with us. Subsequently, as we continue to build these relationships over several years, companies are more prepared to listen to our views and execute a shared vision that benefits both the investee companies and our clients.



Principle 10

GuardCap's investment teams regularly engage with companies to seek to improve the outcome for shareholders. Generally, we conduct our engagement activities through one-on-one meetings with company management and company Boards as we prefer to act independently on the issues that we have identified. However, on occasion, we may be willing to participate in collective engagements where we believe it is in the best interests of our clients. The key factors we take into consideration in deciding whether to participate in a collective engagement include whether:

- the engagement objectives of the collective group are consistent with GuardCap's objectives;
- we believe engaging as a collective group will be more successful than one-on-one;
- engaging as a collective group could be interpreted as having "acted in concert" with another financial institution. If we believe this may be the case we will not participate.

An example of a collaborative engagement activity and subsequent outcome includes:

Company	EssilorLuxottica
Sector	Consumer Discretionary
Country	France
Strategy	Global Equities
Objective	To help resolve the governance situation – the merging of Essilor and Luxottica in January 2017 prompted fears over a clash of cultures (French and Italian), the board structure (equally-weighted) and the clashing of Hubert Sagnieres (CEO Essilor) and Leonardo Del Vecchio (Chairman and Founder of Luxottica) over a number of issues.
Activity	We initially had calls with the Investor Relations teams at both Essilor and Luxottica and subsequently contacted another asset manager, a large investor in the company, to discuss the action we might take. This asset manager had already vetted two independent directors as potential new board members and we had a call with them to discuss the background of the candidates. We joined the asset manager and other investors in backing the resolutions to appoint two independent directors and contacted another large asset manager who was also a large shareholder, who subsequently joined the group. We attended the AGM in Paris to publicly ask questions and vote against the company's proposal.
Outcome	The proposed resolutions partly failed because, three days before the AGM, management reached a new agreement to resolve the governance situation.

Furthermore, and as mentioned previously, GuardCap is a signatory of the PRI and a member of the UK Investment Association. Through these initiatives, we adhere to the relevant standards and industry association guidelines that promote sustainable investment practices.

Principle 11

If a company is engaged in a practice that concerns us, we will engage with the company on this issue, seek to learn more about it and encourage positive change. If successful, we believe this enables us to create additional long-term value whilst taking responsibility as a shareholder to encourage companies to improve their practices.

We apply the same approach to all of our funds, assets and geographies, but take into consideration the wider industry and geographical context.

As mentioned earlier in this report, should we identify an issue or area of concern, we would at first speak with the company as part of an initial 'fact-finding' type meeting. During this meeting, we would seek to find out more about the company's plans to rectify the issue(s), and if we remain unsatisfied with their response over one or a number of meetings, we may choose to escalate the engagement and apply our Engagement Framework.

An example of a time we have escalated our engagement activities is as follows:

Company	Keyence
Sector	Information Technology
Country	Japan
Strategy	Global Equities
Objective	To help understand and work towards improvements in disclosures, Board independence, remuneration structure, employee productivity and turnover, as well as the leadership pipeline.
Activity	In May 2018, we met with Keyence's Director of Business Support and Manager of Business Information and an Investor Relations professional at Keyence's headquarters in Osaka. We asked a number of questions on different aspects of the business, including the company's plans to improve its disclosures and Board independence. In September of the same year, we had a call with the Director of Business Support and Manager of Business Information and asked questions around the company's remuneration structure, employee productivity and leadership pipeline. In March 2019, we again visited Keyence's headquarters and met with the Director of Business Support and Manager of Business Information. During this meeting, we asked questions around the company's culture in terms of employee turnover, their plans to increase Board independence, and their plans to disclose more information in their English-language version of the company's annual report. During the remainder of the year, we had three separate calls with the Director Of Business Support and Business Information and an Investor Relations professional to ask questions on the recurring issues of employee turnover, succession planning, and the company's ownership and compensation structure.
Outcome	In 2020, we decided that we would take the company through our Engagement Framework to continue to escalate our concerns. As part of this, we will follow the steps of the Framework to pursue our aforementioned objectives.



Principle 12

As part of our objective to achieve superior returns for our clients through investing in the highest quality companies around the world that are capable of generating long-term sustainable growth, we encourage good governance and sustainable corporate practices in the companies in which we invest, and proxy voting is an important part of GuardCap's active ownership approach. We have adopted written policies designed to ensure that we vote proxies in the best interests of our clients. These policies apply across all of GuardCap's funds. For separate accounts, we may implement a client's own proxy voting policy.

Transparent Voting Process and Disclosure

All proxies notified to GuardCap will be referred to the investment managers who are authorised to vote proxies. To assist with the proxy voting process, we subscribe to ISS, but we do not automatically follow their recommendations and our votes are the result of a case-by-case review by our investment managers. This is one of the benefits of managing concentrated portfolios and our collaborative process where all investment managers have a detailed understanding of the companies under consideration.

The voting chain is short and efficient – the primary analyst (investment manager) for a company reviews the item(s) to be voted on, and if there is anything controversial he/she will consult with the other team members. If anything is unclear or if the vote is against management, the primary analyst would typically email the company for clarification or to inform the company of our voting intention.

Once a decision has been reached, the investment manager will submit the vote instruction to our Proxy Voting team, based at Guardian Capital's headquarters in Toronto, Canada. The voting process is fully documented and records of voting are available on the website of our parent company, Guardian Capital, and can be accessed [here](#).

For separate account clients who have opted to vote their own proxies, we typically inform them of our proposed voting intention and rationale ahead of time, and welcome any questions or feedback they might have. Once a vote has been placed, our clients will typically inform us of how they voted and this information is shared with our investment teams. For clients invested in our pooled funds, we would take on-board any views or concerns they might have, however, we are cognisant that any individual views may present a conflict of interest or not be in the best interests of all shareholders within a fund. The final voting decisions are therefore solely the responsibility of our investment teams, and all votes are made in line with our Proxy Voting Policy.

We use the ISS Proxy Analyses and Benchmark Policy Voting Recommendations to monitor our shareholder rights, and we track our voting rights using Bloomberg.

Voting Guidelines

In general, GuardCap will vote for proposals that advance and against proposals that impede the long-term sustainable growth of the company.

Our Proxy Voting Policy provides details of how we would typically vote on specific issues, such as executive remuneration, board structure, diversity and competency, audit, shareholder rights,

capital allocation, reporting and transparency, climate risk and the environment, and social and political factors, however, as mentioned, all proposals are analysed by our investment teams and voted on a case-by-case basis.

Voting Abstention

There may be limited circumstances where GuardCap will abstain from voting if we determine that this is in the best interests of our clients. The reasons for abstaining can vary but we endeavour to notify companies ahead of time that we plan to abstain and provide our rationale.

An example of our rationale for abstaining from a vote in 2020 is as follows:

“We are withholding votes in favour of three directors as they preside over compensation practices that are over generous and lack performance related elements.”

GuardCap Proxy Voting Activity 2020:

We endeavour to vote in all proxies, however, there are some instances when we do not. In 2020, we voted on 609, or 99% of proposals, with the exception of one company, due to excessive voting costs.

As long-term investors seeking to invest in a relatively small number high quality companies with strong management teams and good corporate governance, we are generally supportive of management. Nevertheless, in cases where it is our intention to vote against management, we would endeavour to inform the company of our voting intention ahead of time, with the aim of establishing a constructive dialogue.

The tables below summarise GuardCap’s proxy voting activities in 2020:

Management Proposals

	2020
Voted in favour of the proposal	557
Voted against the proposal	46
Abstained	1
Did not exercise your vote	6
Total number of votes	610



Votes by Topic

Topic	No. of eligible votes exercised that were against the proposal
Board of Directors	16
Committees & reporting (e.g. auditors, financial statement approval)	2
Corporate structure (including capital changes, M&A etc.)	13
Remuneration	4
General governance (e.g. anti-takeover, auditors, shareholder rights)	0
Climate risk	0
Environmental (excluding climate risk)	0
Social (including Modern Slavery)	8
Other	3

Topic	No. of eligible votes exercised that were in favour of the proposal
Board of Directors	322
Committees & reporting (e.g. auditors, financial statement approval)	58
Corporate structure (including capital changes, M&A etc.)	97
Remuneration	52
General governance (e.g. anti-takeover, auditors, shareholder rights)	9
Climate risk	0
Environmental (excluding climate risk)	0
Social (including Modern Slavery)	4
Other	15
Not able to provide	

Some examples of our rationale for voting against management in 2020 are as follows:

“The newly appointed CEO receiving outsized equity awards totalling nearly USD 250 million.”

“Insufficient disclosure.”

Shareholder Proposals

We recognise that shareholder proposals can be a useful mechanism to hold companies to account, increasingly in terms of their social and environmental impact. We review each resolution on a case-by-case basis and support those resolutions that address key governance and sustainability concerns and are likely to have a positive impact on the long-term sustainable growth of the company.

At the same time, we are unlikely to vote for proposals that we believe are repetitive, prescriptive or an attempt to micromanage a company. Prior to voting, we consider the company's current approach, its response to the resolution, and whether the resolution is necessary and in the best interests of all stakeholders.

	2020
Voted in favour of the proposal	6
Voted against the proposal	14
Abstained	0
Did not exercise your vote	0
Total number of votes	20

Some examples of our rationale for voting for and against shareholder resolutions in 2020 are as follows:

“Additional diversity-related disclosure would allow shareholders to better assess the effectiveness of the company's diversity initiatives and its management of related risks.” (Voted 'For' to support a shareholder proposal requesting the company to publish a report on the diversity of the company's management team)

“We are voting against the production of various reports, adoption of policies, establishment of committees and hiring of directors given that it seems to be an attempt to micro manage the company in areas where there is already sufficient disclosure or oversight”.

All votes held were in line with our Proxy Voting Policy.

GuardCap's proxy voting activities are fully documented and can be accessed [here](#).

Conflicts of Interest

GuardCap recognises that stewardship activities and company engagement can on occasion lead to potential conflicts of interest. In compliance with FCA rules, we take a risk-based approach to identifying areas of potential conflicts of interest, to managing and mitigating conflicts of interest, and to considering all conflicts when designing and implementing policies and procedures.

To ensure that all potential conflicts of interest are identified and managed appropriately, GuardCap has a Conflicts of Interest Policy. The Policy is reviewed on at least an annual basis by our Compliance team to identify any additional procedures that might be performed to improve the management of potential conflicts of interest.

If a material conflict were to be identified, this would be escalated to Arieta Koshutova, COO, GuardCap, and discussed with the relevant employee(s). This discussion would determine how the potential conflict of interest should be handled in the best interest of the affected client(s).

For more details, please click [here](#).

Conclusion

We hope that this report has provided a detailed and comprehensive overview of GuardCap's stewardship activities. We recognise that good stewardship is foundational to our business, and to our core objective of achieving superior returns for our clients, in excess of standard benchmarks with less risk than the benchmarks, over the long term. At the same time, we take seriously our responsibility of helping to create a more sustainable financial system, economy and society over the immediate and long term, and will continue invest our resources in these areas.



Appendix 1: Principles of the Code

Principle 1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
Principle 2	Signatories' governance, resources and incentives support stewardship.
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
Principle 8	Signatories monitor and hold to account managers and/or service providers.
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.
Principle 12	Signatories actively exercise their rights and responsibilities.





GUARDCAP

GuardCap Asset Management Limited

6th Floor, 11 Charles II Street, St James's, London, UK SW1Y 4NS
(T) 44·20·7907·2400 | (F) 44·20·7907·2420
guardcapinfo@guardiancapital.com | www.guardcap.co.uk