

## Cantillon Capital Management UK Stewardship Code Compliance Statement

Cantillon Capital Management LLP is an asset management firm, established in 2003. Together with our US affiliate, Cantillon Capital Management LLC (collectively referred to as 'Cantillon'), we manage assets of approximately \$15.7<sup>1</sup> billion, on behalf of pension funds, family offices, charities and endowments and other institutional investors. The UK Stewardship Code ('the Code') is relevant to some aspects of our business; we have a duty to act in the best interests of our clients and to protect and enhance the economic value of our clients' investments.

The following is an outline of how Cantillon applies the Code:

### Principle 1

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

Our stewardship responsibilities are discharged in the following ways:

- We take our voting responsibilities seriously, and fully review every vote. We use research and proxy-related services provided by Institutional Shareholder Services (ISS). ISS works on behalf of institutional asset managers to study proxy voting and make recommendations on how to vote. They use a shareholder maximisation philosophy for most of their clients (including Cantillon), which means they recommend the vote most likely to create value for equity holders in the long term. They also analyse the corporate governance implications of each proxy vote.

We do not automatically follow the ISS recommendation. Importantly, each analyst is responsible for reviewing the ballot and formulating their own, independent assessment of the situation and voting in a manner that they feel best serves our clients. By reviewing every vote, analysts are able to keep abreast of any issues arising and can positively impact the strategy and direction of the companies in which we invest.

- Cantillon is a long-term investor and analysts meet regularly with the senior management of investee companies, taking appropriate action where we believe this will enhance the long-term value of our investments. We engage with companies on a range of issues such as composition of the board, remuneration and adherence to labour laws. In particular we are keen to discuss how companies intend to use their cash – we expect it to be either returned to investors or used in value enhancing ways, and will encourage companies to make better use of cash if we feel it is not being put to good use. Our engagement does not always lead to the desired outcome. If this is the case, we will consider whether the company's approach undermines our investment thesis. If it does, we will sell the stock.
- Our engagement with companies is typically carried out privately, although we would consider collaboration if we thought it would lead to a more successful outcome. We have well established, long-term relationships with many of the companies in the portfolio and believe that private engagement allows us to be more open and frank. We typically do not favour public confrontation or discussion in the media.

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<sup>1</sup> At 31 May 2020

- We carry out an annual review of the portfolio, using external benchmarks and research, specifically with a view to determine whether there is strong evidence of repeated and systematic breaches of international standards with regards to ESG issues. If concerns are raised, we will engage with the company directly and discuss those concerns.

## Principle 2

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

We have an obligation to manage conflicts of interest fairly, whether they arise between ourselves and our clients or between one client and another. Our robust conflicts of interest policy identifies conflicts and potential conflicts, and outlines the steps we take to mitigate those conflicts. The policy forms part of our Compliance Manual, which is reviewed and updated at least annually by our Chief Compliance Officer.

The full policy describes all the potential conflicts that may arise in the context of our business. The potential conflicts that are addressed in the policy can be summarised as follows:

- Personal account trading by staff in securities which are also traded for clients
- Allocation of transactions and investment opportunities between clients
- Favouring some trading counterparties over others
- Having conflicting positions in securities or adopting conflicting strategies for different clients that may be detrimental to one party
- Inappropriate handling of sensitive or confidential information
- Overstating or otherwise unfairly influencing the valuation of securities in our clients' portfolios
- Not taking sufficient action to rectify pricing and other valuation errors where to do so would have a negative impact on the value of the portfolio
- Not having clear arrangements for handling trade error
- Not implementing a valuation policy or deviating from it in a way that impacts the fair value of the portfolio.
- Larger investors may get additional information
- Staff may be influenced by inducement and other forms of entertainment
- Remuneration structures may be at odds with Cantillon's regulatory obligations or obligations to clients
- Responsibilities may be ineffectively apportioned, or staff be inadequately supervised
- Staff who have outside commitments (i.e. directorships or other business interests) may be influenced to act in a manner that conflicts with the interests of clients

Situations in which the interests of clients may diverge, or where a client relationship raises a potential conflict, are discussed with the Chief Compliance Officer.

Cantillon's ownership structure is straightforward and poses no obvious conflict: we are a private company, ultimately owned by William von Mueffling, our Founder and President, who also heads our investment team (we are exclusively focused in the management of a single investment strategy – Cantillon Global Equity). We have no broker/dealer affiliates, do not trade securities for our own account and are not under the control of another financial services entity.

A copy of our full policy is available on request from Cantillon's Client Service team at [ClientService@cantillon.com](mailto:ClientService@cantillon.com).

## **Principle 3**

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

Comprehensive ongoing research and monitoring of investee companies is essential to our investment process – we are long term investors and meet with the management of companies on a regular basis.

We use various research and support tools to support our investment process, in particular our proprietary Workstation system, which allows us to record all interaction with the management of investee companies, or those in which we are considering investing. In addition to regular contact with investee companies, we also use industry information, research reports, published accounts, press reports and other relevant sources of information, to inform our research. Our research activities focus on whether the company's growth can be sustained, and how the company intends to use its cash. These issues are monitored through ongoing research and meetings with management. We may also meet with or talk to competitors of the investee companies in order to gain a fuller understanding of the competitive environment.

If our analysts have concerns, they contact the company to discuss. Company strategy, particularly the use of cash flow, the sustainability of growth, operational performance and corporate governance issues which we believe may impact shareholder value (including, where applicable, deviations from the UK Corporate Governance Code) are typical areas for discussion.

Monitoring effectiveness is ongoing – analysts for investee companies keep their investment thesis under regular review, and if any of the assumptions in the thesis change, this prompts a discussion with the investment team.

In normal circumstances, we do not wish to be made insiders. We expect investee companies and their advisers not to convey information to us that could affect our ability to deal in the shares of the company, without prior agreement.

## **Principle 4**

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

Cantillon typically invests in companies that we believe to be well managed, and we aim to build effective relationships with the companies in which we invest. Engagement with company management is an important part of our investment process and escalation would be a natural extension of this approach where there to be issues of concern.

We typically meet with the senior management of a company in the normal course of our research. If there are issues of concern that have not been adequately answered during these meetings, and which we feel warrant escalation, we would discuss internally the most appropriate form of escalation. This escalation may involve a further meeting with the company, or, if the issue has already been discussed at length and not satisfactorily resolved, we would typically write to the Chairman or CEO of the company. The issue which we are most likely to escalate is the use of cash: in the past we have written to companies urging them to return excess cash to shareholders.

Escalation does not always lead to the desired outcome. If this is the case, we will consider whether the company's approach undermines our investment thesis. If it does, we will sell the stock.

We are unlikely to escalate concerns over company strategy, growth or planned acquisitions. The most likely course of action under such circumstances would be to sell the stock if we felt that the company's approach undermined our investment thesis.

We may be prepared to work with other investors if we feel this to be the appropriate course of action. However, we have not done so to date. In line with our low profile, we do not issue statements or campaign publicly on issues. We are also unlikely to requisition a shareholder meeting or submit a shareholder resolution.

## **Principle 5**

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

We consider each issue on an individual basis. We may communicate with other shareholders on a specific issue and will consider working with like-minded investors where we believe that co-ordinated action would be in the best interests of shareholders. We are most likely to act collectively on issues concerning the use of shareholder cash, specifically if we are urging company management to return the cash to investors.

Note that we have not collaborated with other shareholders to date.

We are unlikely to join public, high profile campaigns.

Investors interested in contacting Cantillon with a view to collaboration should contact our Compliance Officer, Kevin Aarons, tel: +1 212 603 3300.

## **Principle 6**

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

We will accept delegation from our clients to vote proxies, and we have a fiduciary responsibility to our clients to maximise the value of their investment. One of these responsibilities is to vote our shares and use this influence to impact positively the performance of investee companies, and the direction of the companies in the portfolio.

Our policy is to vote proxies on a given issue in the same way for all of our clients.

We will not vote proxies for securities that a client has authorised their custodian bank to use in a stock lending program, which passes voting rights to the party with possession of the shares.

We expect our analysts to be aware of the corporate structure and governance of our holdings. For example, excessive compensation schemes, change of auditors, unnecessary fundraisings and aggressive acquisitions are all topics that need to be monitored carefully.

We use research and proxy-related services provided by Institutional Shareholder Services (ISS), which is part of the RiskMetrics Group. ISS works on behalf of institutional asset managers to study proxy voting and make recommendations on how to vote. They use a shareholder maximisation philosophy for most of their clients (including Cantillon), which means they recommend the vote most likely to create value for equity holders in the long term.

ALL incoming proxies are reviewed by the Cantillon analyst for that stock, and after analysing the topics and ISS's recommendations, the analyst will submit the votes manually via the ISS website. We believe it is important for our analysts to review every proxy, ensuring that we are aware of all the issues arising in ballots, and helping us use the influence we have to impact the direction of the companies held in the portfolios.

Our investment strategy has low turnover and changes infrequently. In order to protect the portfolio and investment performance, we choose to keep details of the stocks in the portfolio confidential except where required by regulations; for this reason, we do not publicly disclose detailed voting records as to do so would reveal the specific companies in which we invest. Detailed voting records are, however, disclosed to clients.

We will disclose a summary of our voting activity. For 2019, we voted as follows for the Cantillon Global Equity Fund:

	Number
Proxies received	55
Proxies voted	53
Total issues for all proxies received	769
Issues voted against management recommendation	40
Abstentions/withheld votes	45

In cases where ISS recommends a vote against management, we often contact the company directly to better understand the issues. We do not automatically follow ISS's recommendations and may take a different view once we have considered all the issues.

We typically abstain or withhold votes if we are in the process of selling the stock at the time of the vote.

## Principle 7

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

Detailed information on how we vote on all issues is disclosed to clients on request, including, where requested, the reasons we chose not to follow ISS's recommendations. Most clients with separately managed accounts receive quarterly reports on voting activity. Broader stewardship activities are reported to clients on request, typically annually, and include examples of engagement during the year.

Our voting process is included in the scope of our SSAE 16 attestation engagement, conducted by an independent auditing firm. A soft copy of the report is available on our website.

Please contact the Cantillon Client Service team if you would like any further information.

[ClientService@cantillon.com](mailto:ClientService@cantillon.com)