



## **Arrowgrass Capital Partners LLP**

# **Compliance with the UK Stewardship Code**

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## Introduction

Under COBS 2.2.3 of the FCA Handbook, Arrowgrass Capital Partners LLP (“Arrowgrass”) is required to make a disclosure in relation to the nature of its commitment to the Stewardship Code (“the Code”), which was published by the Financial Reporting Council in July 2010 and updated in September 2012.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole.

The Code sets out the principles of effective stewardship by investors, and assists asset owners and asset managers, collectively “institutional investors”, to exercise their stewardship responsibilities. The Code is applied on a “comply or explain” basis.

Arrowgrass supports the principles underlying the Code. This document describes the extent to which Arrowgrass has applied the seven Principles of the Code.

## Principle 1

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

Arrowgrass’ Stewardship Compliance Statement is set out here and is available on Arrowgrass website at [www.arrowgrass.com](http://www.arrowgrass.com).

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

Arrowgrass is an FCA regulated alternative investment manager that employs a non-siloed, multi-strategy approach to investing in a broad range of asset classes on a global basis. Arrowgrass will engage or vote in a manner that best serves its clients and their underlying investors (together “clients”), with the aim of enhancing and protecting their value.

Accordingly, Arrowgrass may engage in purposeful dialogue with companies on issues that fall within a particular strategy or are the immediate subject of votes at a general meeting as part of its wider investment process. As per our Proxy Voting policy, topics which we may take into account may include Board independence, Board diversity, executive compensation, shareholder rights, use of political donations and other ESG (environment, social and governance) issues as set out in our Responsible Investment policy.

In order to measure and monitor many of these issues we have partnered with external providers to provide us with ESG evaluation models. Using these we have developed a minimum threshold, *ceteris paribus*, that issuers are required to meet (the “ESG Screen”). These models identify the worst performing companies and sovereigns and this is taken into account when reviewing our portfolios.

## Principle 2

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

Arrowgrass' Conflicts of Interest Policy is available on the Arrowgrass website.

Arrowgrass' duty is to act in the interests of its clients. This obligation is set out under Principle 8 of the FCA Handbook, and more specifically in SYSC 10 of the FCA rules which requires a firm to take all reasonable steps to identify, record, manage and disclose conflicts that may arise in the course of its business. As such Arrowgrass has a robust policy in place and is committed at all times to managing conflicts and potential conflicts fairly between both Arrowgrass and its clients, and between one client and another client.

As an Investment Manager, in order to identify the types of conflicts that may arise in the course of managing a client fund, Arrowgrass shall take into account whether it:

- is likely to make a financial gain, or avoid a financial loss, at the expense of a client fund or its investors;
- has an interest in the outcome of a service or an activity or a transaction involving a client fund or its investors, which is distinct from that client fund's interest in that outcome;
- has a financial or other incentive to favour:
  - the interest of another client fund over the interest of the client fund;
  - the interest of one investor over the interest of another investor or group of investors in the same client fund;
- carries on, or tries to carry on the same business for more than one client fund; or
- receives or will receive from a person other than the client fund or its investors an inducement in relation to collective portfolio management activities provided to the client fund, in the form of monies, goods or services

As part of its commitment to conflict management and prevention, Arrowgrass maintains and operates effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts from adversely affecting the interests of any client funds and the investors in those client funds.

Therefore, where possible, Arrowgrass seeks to organise its business activities, including external arrangements, so as to avoid conflicts of interest. Accordingly, Arrowgrass considers it an essential part of conflicts management that there is independence between functions within Arrowgrass. To this end, Arrowgrass maintains separate Risk, Finance, Operations, Legal and Compliance teams with a separate reporting line distinct from the Arrowgrass Investment Team reporting line.

Arrowgrass' Proxy Voting Policy, further detailed under Principle 6, sets out how it will ordinarily vote in particular circumstances.

## Principle 3

### Institutional investors should monitor their investee companies.

Effective monitoring is an essential component of stewardship.

Comprehensive and continuous research and monitoring of investee companies is essential to Arrowgrass' investment process. Arrowgrass utilises various research tools to support this process, keeping abreast of the company's performance and developments.

Should Arrowgrass wish to become an insider as part of its investment process, the mechanism for this is described in the Arrowgrass' Insider Trading & Market Abuse Policy, available on the Arrowgrass website.

As Responsible Investing ("RI") and ESG have become increasingly important to investors and stakeholders, Arrowgrass considered it appropriate to address these issues within the investment processes. As such, we developed a Responsible Investment Policy to address ESG issues. Our objective is to embrace RI and specifically to monitor and integrate ESG issues into our investment processes.

As mentioned above, our ESG screen means that Arrowgrass receives over 4,000 intra-sector Total Issuer ESG scores and Country scores in order to review the RI performance of portfolio holdings. Whilst we endeavour to screen all issuers, there will be circumstances where there is no coverage provided by our selected ESG research provider, or where coverage is not practicable due to the nature of the security (e.g. diversified indices). In such a scenario we will use our knowledge, experience and judgement to make an ESG assessment for such non-rated issuers. In exceptional circumstances we have the option to request bespoke ESG reports on individual issuers.

We have appointed an ESG Committee which consists of senior management that meets quarterly to review the output of the ESG screen. Where we identify entities that have fallen short of our ESG expectations we may take action to either begin a dialog with the particular entity or alternatively we may decide to reduce our position or even divest completely.

Identifying ESG risks and opportunities in our investment processes does not substitute our existing proprietary fundamental research strategies. Instead, pursuant to our ESG Screen policy we evaluate ESG research as part of our overall assessment and decision-making process. While our policy provides clear guidelines Arrowgrass retains complete discretion on any investment decisions.

Our Proxy Voting, Conflicts of Interest and Responsible Investment Policy are available to our investors on [www.arrowgrass.com](http://www.arrowgrass.com) and to 3<sup>rd</sup> parties on request.

## Principle 4

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

Arrowgrass will form its own views on the strategy and governance of an investee company. It may in some instances consider promoting change. For example, Arrowgrass may determine that the value of the investee company could be enhanced by pursuing strategies that disagree with the investee

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company's strategies. In this instance, Arrowgrass may initially promote its views through discussions with the company's advisors and/or independent directors although it may also speak to other shareholders and third parties. Wherever possible, Arrowgrass seeks to achieve its objectives in a consensual and confidential manner but in extreme circumstances will consider requisitioning an extraordinary general meeting to enable shareholders to vote on matters in dispute. Subject to any regulatory restrictions, Arrowgrass may also work with similar investors to give greater influence.

As mentioned above we have appointed an ESG Committee which consists of senior management that meets quarterly to review the output of the ESG screen. Where we identify entities that have fallen short of our ESG expectations we may take action to either begin a dialog with the particular entity or alternatively we may decide to reduce our position or even divest completely.

## Principle 5

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

Subject to regulatory restrictions and conflicts of interest, Arrowgrass may communicate with other shareholders regarding a specific proposal if it considers it to be in the best interests of its clients to do so or at times when risks posed threaten to destroy significant value in the investee company.

While Arrowgrass does not currently have a Collective Engagement Policy we may consider engaging with other known investors. However, as a regulated financial services business we need to be aware of the rules around acting in concert and the Takeover Panels rules in regards to thresholds related to mandatory takeover bids.

## Principle 6

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

Arrowgrass' Proxy Voting Policy sets out clear voting guidelines. These are not, however, rigid and Arrowgrass will review proposals on a case by case basis and may vote contrary to the Policy's guidelines.

It is Arrowgrass' philosophy that actively exercising voting rights enhances the long-term sustainable value of the companies in which Arrowgrass invests. As such, Arrowgrass considers all proposed resolutions, received in good time. Arrowgrass generally votes on all securities where it is able to do so.

Arrowgrass will generally vote by proxy and in a manner that serves what it determines to be in the best interest of its clients; Arrowgrass may not automatically support the board of the investee company. It may abstain from voting if it determines that this is in the best interest of Arrowgrass' clients. In making such a determination, Arrowgrass will consider various factors including costs associated with the exercise of the proxy and any legal restrictions on trading resulting from the exercise of a proxy.

Our proxy voting guidelines provide that we typically vote in favour of proposals for having a majority of independent directors on the board and for the separation of the office of chairman and CEO. We

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generally oppose the transfer of authority from shareholders to directors, we do not favour shares with restricted or differential voting rights, nor do we favour poison pills or the re-pricing of options. Notwithstanding that our guidelines contain policy statements and specific voting recommendations, they are not rigid policy positions. We review proposals on a case by case basis and we may vote contrary to what the guidelines may suggest.

We do not use advisory services when voting and Arrowgrass does not lend out the securities that it manages on behalf of its clients.

## Principle 7

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

Arrowgrass maintains records of its Stewardship and voting activities.

Due to underlying client confidentiality and investment or engagement strategy reasons, it may not always be appropriate to disclose voting actions.

Upon request, or as required by law or regulation, Arrowgrass will disclose to a client or a client's fiduciary the manner in which Arrowgrass exercised voting rights on behalf of the client. We provide such reports to investors in the format and frequency that they request.

In the past we have also partnered with a multi-disciplinary Responsible Investment firm, to help implement our ESG strategy – this is achieved through robust quantitative & qualitative analysis, whilst also ensuring integrity, impartiality, and objectivity is maintained and omnipresent in all ESG related activities.

## Contact details for Enquiries

For further information, please email [compliance@arrowgrass.com](mailto:compliance@arrowgrass.com)