Policy - UK Stewardship Code and Shareholders' Rights Directive

UK Stewardship Code
Under COBS 2.2.3 of the FCA Handbook, Coriolis Capital Limited ('Coriolis') is required to report on whether or not we apply the UK Stewardship Code (which was published by the Financial Reporting Council ('FRC') in 2010, further revised in 2012 and 2020), and make this information publicly availably.

The Code was initially established in order to enhance the quality of engagement between institutional investors and UK listed companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies and is to be applied by firms on a 'comply or explain' basis.

The UK Stewardship Code 2020 is a substantial and ambitious revision to the 2012 edition of the Code which took effect from 1 January 2020.

The new Code sets high expectations of those investing money on behalf of UK savers and pensioners. In particular, the new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

There is a strong focus on the activities and outcomes of stewardship, not just policy statements. There are new expectations about how investment and stewardship is integrated, including environmental, social and governance (ESG) issues. The Code asks investors to explain how they have exercised stewardship across asset classes. For example, for listed equity, fixed income, private equity, infrastructure investments, and in investments outside the UK.

The Code consists of 12 Principles for asset managers and asset owners, and six Principles for service providers. These are supported by reporting expectations which indicate the information that should be publicly reported in order to become a signatory.

The twelve principles of the Code are set out as follows:

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.

The Financial Reporting Council's preamble to the Code explains:

Each Principle has reporting expectations under the headings Activity and Outcome. Some Principles also include reporting expectations under the heading Context, which require disclosure of background information or policies that are necessary in order to understand and assess the approach taken to stewardship.

Some reporting expectations will be more relevant for asset managers or those investing directly, while others will be more relevant to asset owners or those using intermediaries. Organisations must determine which reporting expectations are relevant and appropriate to their business or role in the investment community.

In Principle 6, for example, "signatories should disclose an approximate breakdown of: the size and profile of their membership, including number of members in the scheme and the average age of members; OR *their client base, for example, institutional versus retail, and geographic distribution".*

The Code contains more detailed reporting expectations for listed equity assets. This reflects the relative maturity of stewardship for listed equity assets. However, signatories should use the resources, rights and influence available to them to exercise stewardship, however capital is invested.

Reports should be engaging, succinct and in plain English. They should be as specific and as transparent as possible without compromising effective stewardship.

The Report should be a single document structured to give a clear picture of how the organisation has applied the Code. Relevant data, diagrams, tables, examples and case studies should be used appropriately. It should focus on activities and outcomes and provide enough information to enable the reader to have a good understanding of the application of the Code without having to refer to information elsewhere. However, the Report may link to more detailed policies and disclosures, including against other reporting requirements. Any additional information should be clear and accessible.

Reports should be fair, balanced and understandable. For example, reporting should acknowledge setbacks experienced and lessons learned, as well as successes. Activities to achieve desired outcomes may take more than a *year and may not be completed within an organisation's reporting period. Where this is the case, this should be indicated and progress reported.*

The Code recognises that signatories differ by size, type, business model and investment approach, and do not exercise stewardship in an identical way. The reporting expectations do not require disclosure of stewardship activities on a fund-by-fund basis or for each investment strategy. However, the information provided should give a clear indication of how stewardship activities differ across funds, asset classes and geographies proportionately to their operations.

Reports must be reviewed and approved by the applicant's governing body, and signed by the chair, chief executive or chief investment officer.

Once the applicant has been accepted as a Code signatory and the Report is approved by the FRC, the Report will be a public document and must be made available on the signatory's website or, if they do not have a website, in another accessible form.

Further information on how to submit the Report and the assessment process can be found on the FRC website.

The 2020 Code is no longer limited to UK listed equities. It has been widened to include fixed income, private markets, infrastructure investments, plus investments in assets listed or located outside the UK. The Code is designed to accommodate the different terms, investment horizons, rights and responsibilities of each of these asset classes.

The Code is voluntary at this stage, however Coriolis is committed to applying the highest standards to it activities as an FCA-regulated investment manager and takes its responsibilities seriously. Considering each of the twelve principles in turn, it should be noted that Coriolis is the investment adviser to its funds and in turn is required to adhere to a strict set of due diligence requirements when taking investment decisions for these funds. It reports to a separate board, manager and trustee (where applicable) and is at all times subject to their oversight.

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.

- *Coriolis is an investment firm that specialises in insurance linked securities. The team has a funds' track record in excess of twenty years which it has worked hard to achieve and takes its obligations very seriously. It has strong principles which it has adhered to consistently both in terms of risk and diversification to ensure that the funds remain resilient during volatile periods in order to protect the underlying investors' assets.*

Principle 2: Signatories' governance, resources and incentives support stewardship.

- *Coriolis has a strong team that operates to ensure coverage of all areas of the business at all times. Coriolis is now a wholly-owned subsidiary of the SCOR group of companies and SCOR SE is a listed company. The Board of Directors of Coriolis are all senior personnel, each with a long track record in the financial services industry. The Non-Executive Directors of Coriolis are all senior personnel of the SCOR group with detailed understanding of insurance linked securities. SCOR IP's purchase of Coriolis has provided it with access to support and investment in processes and systems that would otherwise not be available to it.*

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

- *Coriolis has a conflicts of interest policy and inventory in place, as required by the FCA. It is reviewed and approved by the Board of Directors at each board meeting, and updated as necessary.*

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

- *As an FCA-regulated firm, it is part of Coriolis' responsibility to identify and respond to market-wide and systemic risks. It should be noted that the funds invest in insurance linked securities that are exposed to mainly natural catastrophe events that, by their nature, cannot be controlled. Coriolis can, and does, ensure that the funds invest in diversified assets such that they are not exposed to catastrophes limited to one event (for example, pure Florida hurricane) and also carefully monitors the terms of each investment to ensure that its funds are not subject to inappropriate obligations or commitments that are not aligned with the investment guidelines. In addition Coriolis pays specific attention to aligning the liquidity terms of the investments in the funds with the liquidity terms of the funds themselves in order to meet investors needs and the terms of the relevant prospectuses.*

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

- *As an FCA-regulated firm, Coriolis is required to have policies and procedures in place to effectively manage its business. These policies are reviewed and approved by the Board of Directors at least annually, or more frequently if it is deemed appropriate. The CEO and Compliance Officer ensure that these policies are implemented on a day to day basis.*

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

- *Coriolis produces and issues monthly reports to the investors in the funds it advises every month. Each report provides detailed information regarding diversification, asset allocation, returns and performance of the fund and a monthly commentary regarding events that have impacted the fund during the past month. Coriolis responds to investor requests for information in an open and co-operative manner at all times. Coriolis advises a number of funds with a range of different risk/return frameworks in order that the investor can choose the strategy that is the best fit for its own risk appetite.*

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

- *Since the funds that Coriolis advises invest in insurance linked securities and are exposed to extreme weather events, natural catastrophe events and man-made catastrophe events, investors tend to view the strategies as an appropriate choice when considering ESG issues.*
- *The asset class, encompassing catastrophe bonds, collateralised reinsurance and weather derivatives, is the sector of the financial markets that helps affected areas recover more quickly and potentially prepare better for the future following a natural or man-made disaster. By investing in the asset class, the investor is able to make a contribution that is both environment and social, enabling the fabric of society to recover more quickly when it is needed the most.*
- *The asset class provides coverage against what can be described as 'acute' risks. Natural or man-made catastrophes can have a direct impact on households, business, industry and government by causing physical destruction to property and infrastructure. They can also have an indirect impact by interrupting the supply chain for necessities such as food, water, medicines and fuel. Changes in the availability and quality of these items can seriously affect entire industries, governments and people. Whilst they are on a smaller scale,*

coverage provided by weather derivatives against events such as lack of or too much rain, excess heat or excess cold can assist businesses cover the financial impact of these unwanted events and enable them to provide their services and products in the future. Society will in turn benefit from the continuation of these businesses.

- *Most insurance linked securities have so far typically been designed to provide reinsurance to policies that cover insured regions, which are all relatively socially privileged. Securities have now been brought to the market on behalf of national and supra-national organisations such as the World Bank, which aim to provide cover to uninsured regions, helping to bridge the gap. This not only provides diversification to an ILS investment portfolio, but also benefits society as a whole, and less well-developed regions in particular.*
- *Coriolis provides monthly commentary that relates to the weather and natural catastrophe events, in addition to an analysis of the performance of the investments in insurance linked securities. As noted in the response to Principle 1, The team has a funds' track record in excess of twenty years which it has worked hard to achieve and takes its obligations very seriously. It has strong principles which it has adhered to consistently both in terms of risk and diversification to ensure that the funds remain resilient during volatile periods in order to protect the underlying investors' assets.*

Principle 8: Signatories monitor and hold to account managers and/or service providers.

- *Coriolis has a detailed SLA in place with its new service provider which means that it can monitor services and escalate them to the highest level where necessary.*

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

- *Coriolis considers it a normal part of its due diligence procedures to include detailed scrutiny of the terms of an investment from both a legal and strategy standpoint. This includes meetings in person, correspondence and telephone conversations, as the case may be. The team does not operate a 'one size fits all' approach but instead considers each situation separately. The investment team would rather take the decision not to invest than commit the funds to an investment that contains unacceptable or draconian terms, and have taken this approach in the past.*

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.

- *Coriolis has worked with other participants in the collateralised insurance to push back on terms that cedents wished to impose that it considered detrimental to investors; interests. It has been a successful approach in some instances, depending on the cedent involved. Please also refer to Principle 9.*

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

- *Please refer to Principle 10.*

Principle 12: Signatories actively exercise their rights and responsibilities.

- *Please refer to Principle 10. Please also note that Coriolis takes its responsibilities towards the funds it advises very seriously. The investment strategy of each fund is clearly set out in the funds' offering documents and the investment team abide by them at all times. The Compliance Officer and the fund trustee provides oversight in this regard. Voting policies, stock lending and related issues do not apply, due to the nature of the investment strategies.*

Since the 2020 Code is voluntary and the FCA has agreed that it would be premature to impose more stewardship obligations or requirements on asset managers and life insurers at this stage, Coriolis has decided not to become an official signatory at this point in time, although it will continue to operate in the diligent manner set out above, as it always has.

Shareholders' Rights Directive II ('SRD II')
In addition to the Stewardship Code, the FCA has implemented the Shareholders' Rights Directive in the FCA Handbook under COBS 2.2.B. SRD II (which came into force in the UK in June 2019, substantially amends the original directive, broadening its scope and remit to include rules to encourage long-terms shareholder engagement and transparency between traded companies and investors. The FCA Handbook rules are set out below:

COBS2.2.B.5
A firm must either:

(1) (a) develop and publicly disclose an engagement policy that meets the requirements of COBS 2.2B.6R (an "engagement policy"); and
(b) publicly disclose on an annual basis how its engagement policy has been implemented in a way that meets the requirements of COBS 2.2B.7R; or

(2) publicly disclose a clear and reasoned explanation of why it has chosen not to comply with any of the requirements imposed by (1).

COBS2.2.B.6.
The engagement policy must describe how the firm:

(1) integrates shareholder engagement in its investment strategy:
(2) monitors investee companies on relevant matters, including:
  (a) strategy;
  (b) financial and non-financial performance and risk;
  (c) capital structure; and
  (d) social and environmental impact and corporate governance;
(3) conducts dialogues with investee companies;
(4) exercises voting rights and other rights attached to shares;
(5) cooperates with other shareholders;
(6) communicates with relevant stakeholders of the investee companies; and
(7) manages actual and potential conflicts of interests in relation to the firm's engagement.

Since the funds advised by Coriolis do not invest in shares traded on a regulated market, either within or outside the EEA, the firm is not required to have an engagement policy in place.