

## **Graphite Capital Management LLP**

### **Compliance with the FRC's Stewardship Code**

#### **Introduction**

Graphite Capital Management LLP ("Graphite Capital" or the "Manager") acts as investment manager for:

- a number of private funds investing in unquoted mid-market companies in the UK (the "Graphite Funds"); and
- a UK listed investment company, Graphite Enterprise Trust PLC, which invests principally in funds investing in unquoted companies in Europe and elsewhere (private equity funds).

Graphite Capital's role as manager of Graphite Enterprise Trust PLC is the only activity which falls within the scope of the Stewardship Code.

Graphite Enterprise Trust PLC (the "Company") is an investment trust with a premium listing on the London Stock Exchange. The Company's Board is comprised solely of non-executives directors and Graphite Capital has been appointed as the sole manager. Graphite Capital has responsibility for the day to day running of the Company, including all investment decisions which are within the investment restrictions set by the Board.

The Company's investments are predominantly in private equity funds. Investors typically have very limited or no discretion over investment decisions or strategic decisions in the underlying investee companies, as long as the investments made by the manager of the fund are within the contractually agreed parameters.

#### **Statement re the Stewardship Code**

The Financial Reporting Council's Stewardship Code (the "Code") consists of seven broad principles with respect to institutional investment. The Code states that institutional investors should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities;
2. have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed;
3. monitor their investee companies;
4. establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value;
5. be willing to act collectively with other investors where appropriate;
6. have a clear policy on voting and disclosure of voting activity; and
7. report periodically on their stewardship and voting activities.

Effective stewardship is fundamental to the investment strategy of Graphite Capital and the third-party fund managers which form the Graphite Enterprise investment portfolio. Fund managers work closely alongside management teams to maximise investor returns and play an active role in both determining strategy and monitoring the performance of investments. The investment funds typically hold majority positions in their investee companies, allowing them unfettered access to information and the ability to take swift and decisive action to the benefit of the underlying investors. As a result, many of the formal mechanisms used by investors in quoted companies to discharge their responsibilities of stewardship are not typically used in the private equity model. Graphite Capital seeks to comply with the code to the fullest extent possible given the nature of the investments held by the Company.

In respect of each of these principles:

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

and:

**3. Institutional investors should monitor their investee companies**

Graphite Capital monitors the Company's investment portfolio on an on-going basis. There is no scope in most private equity fund structures to influence the running of underlying portfolio companies through voting or direct intervention and the Manager will typically receive less detailed information than an investor in a publicly quoted company. The Manager maintains an active dialogue with the third party managers it has backed to ensure that their conduct is consistent with the principles of good stewardship.

The Manager reports the results of this monitoring process at each quarterly Board meeting.

Some of the Company's assets are managed directly by Graphite Capital in its capacity as manager of the Graphite Funds, in which the Company is an investor. Graphite Capital has active involvement in the management of each company invested in by the Graphite Funds. Graphite Funds typically have majority control and therefore the Manager has the ability to actively intervene, vote and obtain detailed information about all aspects of the investee company's activities.

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

Graphite Capital maintains a policy for the management of conflicts and a register of potential conflicts which may arise. However, we believe that the private equity model provides for a strong alignment of interest between company management teams, fund managers and investors in those funds. To the extent conflicts which involve Graphite Enterprise do arise, there is an established process where conflicts are disclosed to and resolved with the Board of the Company.

**4. Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value**

The nature of the investments managed by Graphite Capital for Graphite Enterprise provide limited scope for the forms of escalation envisaged by the Stewardship Code. However Graphite Capital takes an active approach to investing in non-Graphite managed private equity funds. Any activity or change in terms which requires investor consent is given careful scrutiny and usually discussed in detail with the relevant third party fund manager. Further action may be taken where appropriate.

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

In principle, Graphite Capital is willing to act with other investors. Matters requiring investor consent are often discussed with other investors in those funds. However the nature of the investments managed provides limited scope for the forms of collective activity envisaged by the Stewardship Code.

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

Graphite Capital exercises voting rights on behalf of the Graphite Funds and Graphite Enterprise Trust in their respective best interests and in order to maximise investor/shareholder value. Since the Graphite Funds typically have majority stakes in their investee companies, voting is typically in support of the Board and management team. The structure of ownership by the Graphite Funds means that it is often unnecessary to formally exercise voting rights.

Voting activity in respect of the third party fund portfolio is assessed on a case by case basis, although the instances where voting is required are fewer than for investment in companies. In these instances, the Manager will seek to vote in a manner which maximises value for shareholders of Graphite Enterprise Trust plc.

Graphite Capital does not publicly disclose its voting activity as the investments it manages are almost entirely private and therefore public disclosure would not be appropriate.

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

Graphite Capital provides the funds it manages with regular, detailed reports. These reports include details of engagement with investee companies and funds.

Enquiries in relation to this statement should be addressed to:

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