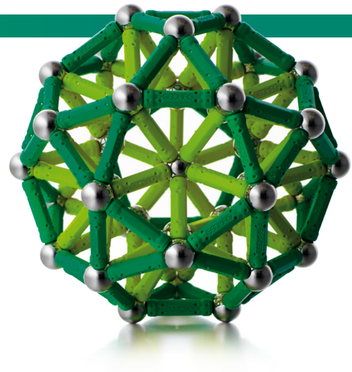
OLD MUTUAL GLOBAL INVESTORS: UK STEWARDSHIP CODE



FREDDIE **WOOLFE**
HEAD OF RESPONSIBLE INVESTMENT AND STEWARDSHIP

Old Mutual Global Investors regards stewardship as an opportunity designed to improve and protect its clients' interests and, by implication, investment returns.

Apart from seeking to provide clients with the investment outcomes they require to meet their financial aspirations, effective stewardship can also enhance the performance of companies - ultimately to the benefit of the wider economy.

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

We recognise the UK Stewardship Code, (the "Code") as best practice and have structured this note according to its principles. The Financial Reporting Council oversees the code which aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. This statement of compliance is required by the Financial Conduct Authority in the UK and sets out how we comply by reference to the principles in the Code.Our stewardship approach is also consistent with our commitment (as part of the Old Mutual Group) to the United Nations-supported Principles of Responsible Investment.

STEWARDSHIP POLICY

STEWARDSHIP CODE PRINCIPLE 1:

"Institutional Investors should publicly disclose their policy on how they will discharge their stewardship responsibilities."

The aim of our stewardship activity is to protect and enhance our clients' interests and the value of their investments. The stewardship approach taken varies, depending on investment style and size of holding as described below.

INVESTMENT STYLES

Old Mutual Global Investors provides a range of investment products drawing on various investment styles and investment instruments which affect our stewardship approach. The investment styles employed include (but may not be limited to):

- Long-term long-only equity funds where we build and maintain material shareholdings. For these funds we view stewardship as a core part of our activity and typically consider using the full range of powers available to shareholders in order to increase and/or protect the value of investments.
- Alternatives including hedge funds, where securities may be held for only a short period of time. These funds may use a range of financial instruments including 'short' positions using derivatives in the expectation that the share price will fall. In such cases, it is often impractical and unconscionable to exercise the full range of powers as shareholders, including voting.
- Multi-asset funds, comprising portfolios managed by third party asset management firms or managed internally within Old Mutual Global Investors. Where these funds invest in UK equities, we expect asset managers to adhere to the UK Stewardship Code and we expect them to apply their own voting and engagement policies to the funds they are managing on our behalf. It is important for asset management firms to retain stewardship powers so they are able to align stewardship and voting with the investment style and process for which they are responsible. Due diligence is undertaken on these asset management firms, including their approach to stewardship and responsible investment, by our multi-asset, fund research and compliance monitoring teams.
- Externally managed, single funds, normally where the funds normally apply to one asset area or style and which may include investments in equities. As for multi-asset portfolios, due diligence is undertaken by our research and compliance teams and the external managers are expected to meet appropriate standards, including compliance with the UK Stewardship Code where applicable.

MATERIAL HOLDINGS

Exercising stewardship takes a variety of forms and the size of holdings affects the most appropriate method. At its simplest, this may be exercising proxy votes for companies in which we invest. However, where we have material positions held over a longer time horizon, stewardship may extend to fostering a relationship with companies that allow engagement, debate, and constructive challenge and, if necessary, encouraging change at the company. We focus this in-depth stewardship activity where we have material shareholdings, and, as such, greatest influence. For example, a 5% holding in a FTSE 100 company enables us to engage comprehensively with a company. By contrast, a 0.1% holding in a small company provides no material influence and little ability to engage or encourage change. The specific thresholds around which we make voting and engagement decisions will vary according to the percentage of share capital we control, the particular issue under consideration and the size of the company. We take the view that where the percentage share capital of a company is small, so accordingly the materiality of that holding to the company and therefore the persuasive effect of our holding will be limited.

Occasionally there may be times where the holding we control is very small but a matter of principle justifies engagement with a company or collaboration with other investors.

A MATTER OF PRINCIPLE?

We engaged recently with a large company. The percentage shareholding we controlled was under 0.1% and therefore, seemingly, at a level which would not normally indicate a level to commence discussions with a company. However, prior to the AGM, we identified that the board had only one female director of a board of nine; it appeared the chair did not wish to change the board further; yet, the chief executive reported the company's target to increase women senior managers from 12% to 20% by 2020. Given the disparity in ambition, we therefore contacted other shareholders and organised a meeting with the company's chair. We were informed the company is shortly to appoint a further woman director - engagement continued until the appointment was confirmed.

Since our discretionary equity business has historically been UK biased, our stewardship activities are naturally concentrated in the UK. However, as our equities business expands across other geographies, we will take the opportunity to review, and update, our practices to implement effective stewardship in those markets, where we have material holdings.
We concentrate our stewardship activities on equities because that is where investors can be most effective. In extreme cases equity investors have the ability to replace company management. The scope for other asset classes - debt investors, for example - to influence a company on stewardship issues, taking account of the very limited occasions on which a debt instrument holder will ever vote, is generally limited to a decision to buy, sell or hold the debt instrument at a particular price level.

CONFLICTS OF INTEREST

STEWARDSHIP CODE PRINCIPLE 2:

"Investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed."

It is possible that actual or perceived conflicts of interest may arise in relation to the execution of our stewardship activity. Examples of possible conflicts include:

- Where we are a shareholder in a company and also in a commercial relationship with that company, for example as a client, supplier or other counterparty. This clearly provides a potential conflict of interest and in these cases, our conflict policy will apply. In defining the potential conflicts, any institutional investor or financial services company is potentially a client or supplier and therefore, will be deemed to be an organisation where the conflicts policy will apply.
- Old Mutual Global Investors is a part of Old Mutual Wealth, which is in turn owned by Old Mutual plc. There may be occasions where an interest to be voted is held in Old Mutual plc. In these cases, without exception, we will follow the conflict policy with respect to voting[1].
- Conflicts could occur between clients and where this is the case we must continue to act in the best interests of each client. Thus, for example, the equity share interests of different clients may be voted differently at the same meeting where it is in the interests of each to do so.
- Some of the funds under our control will short equity shares. In the best interests of our clients we have rules in place to prevent or manage conflict of interests between ourselves and clients, as well as between clients arising from shorting activity.

Our voting policy at: http://www.omglobalinvestors.com/Global/Policies/OMGI-Our-approach-to-voting.pdf describes how we manage conflicts of interest. The relevant extract from the policy is as follows:

"A conflict arises when an actual or potential interest might influence us not to act fairly, independently or objectively in the interests of a client whose interests we are managing. Old Mutual Group, which includes Old Mutual Global Investors, has extensive, rigorous conflict of interest policies applying throughout all operating divisions and which are included in employee contracts. Where we have a conflict or potential conflict on voting, we will follow the application of our policy by the third-party specialist voting firm. If our policy is not specific, then we would follow the voting recommendation of the third party agency unless we determine that the vote recommendation would damage the client whose interest(s) we are voting. In this case we will determine the voting decision and publicly disclose the conflict and the reason for our vote."

Companies where a conflict may apply would include clients. A common conflict is other financial service companies where we have or may seek a commercial relationship – for example, a company which may market or distribute products offered by us. In these cases, for voting, we must follow the voting policy and therefore follow the recommendations of a third party. Our stewardship obligations remain, however. In these cases, where we have a material shareholding in a financial services company with which we have, or might form a commercial relationship, we must engage on material issues. But the default policy will remain to follow the vote recommendations of the third party: if such a recommendation is not available, our policy provides we must be transparent and disclose the conflict and the reason for any vote.

[1] At the time of writing Old Mutual plc had announced its intention to demerge Old Mutual Wealth, however until such time that demerger is complete the conflict policy will continue to be applied.

MONITORING AND ESCALATION

STEWARDSHIP CODE PRINCIPLE 3:

"Institutional investors should monitor their investee companies."

It is a core part of our work to monitor investments. Partly, this is to assess whether to add to, maintain or sell the holding. We will also monitor investments for the purpose of protecting against a loss of investment value and ideally to assist companies in improving their value and returns.

Our monitoring includes, but is not limited to, an on-going assessment of companies' financial and operational performance, the quality and credibility of strategy, the markets and economies in which companies operate, the effectiveness of a company's leadership, financial sustainability, the quality of a company's reporting and governance processes, including environmental and social issues (particularly those that are or may be material to the value of the company); the ethical behaviour of the company and membership of the leadership team. (This includes an expectation that companies will move swiftly to achieve and exceed the aspirations set out by the UK 30% Club[2].) We also consider compliance with the UK Corporate Governance Code and where companies do not comply with the Code, will consider explanation for non-compliance on the merits and circumstances of each case. Areas of particular interest include company strategy, the management of the portfolio of the assets of a company, continuing operational success, executive pay and, increasingly, the steps a company is taking regarding environmental management and the impact of climate change.

The information published by companies, particularly financial statements and reports and accounts are important sources of information to assist in monitoring investments but we also use other sources including third party environmental, social and governance research, financial research and information we obtain during the course of engagement with a company. The desired outcome of monitoring activity is to reduce risk and/or obtain greater long-term success for the company and therefore for our clients. Thus, achieving change and avoiding risks are factors we take into account in reviewing holdings and the success of our activity.

In the course of our monitoring and engagement with company management we are willing to become insiders if justified in the circumstances: it is our practice that the fund managers responsible for the relevant shareholding will determine if we can be taken inside, in accordance with our control framework. We cannot agree to be taken inside without a clear deadline for insider status ending: it is not in the interests of our clients to be inside for an indefinite term.

STEWARDSHIP CODE PRINCIPLE 4:

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

The topics on which we will engage with companies include any of the issues which are monitored under principle 3, above – but that list is not exclusive. Anything that might affect value, or risk, may be the subject of engagement with company representatives – including senior executives and non-executive board members, or its advisers.

Stewardship is overseen by the head of UK stewardship and governance, who works closely with fund managers and analysts on issues of stewardship. Regular engagement with companies arises from the one-to-one meetings with company executives often following company results announcements. These meetings permit fund managers to assess the valuation of companies but are also used to question companies on strategy, governance, performance and financial management. We also have meetings with chairs of companies in which we have material percentage shareholdings at which we may discuss any issue relating to the business but usually this includes discussion on the company's strategy, operations and the board. Other directors seen regularly are the chairs of remuneration committees because companies often consult shareholders prior to shareholder general meetings in order to ensure shareholder support for pay policy.

DISCUSSIONS WITH COMPANIES RECENTLY HAVE INCLUDED:

- Succession planning and membership of the board
- Testing and challenging a proposed acquisition
- The use and retention of cash by companies
- Regular communication with chairs with an aim to allow us and the chairs to understand viewpoints, and engender communication and trust

Where possible it is our preference to support the management of companies in which we have holdings. We will therefore evaluate the actions and strategies of companies constructively. However, where there is a threat to the value of the company, we will take steps to protect the value of our clients' investments. Such action may include the following interventions, although may not necessarily occur in the following sequence:

- Engaging with company (executive) management (e.g. by letter, meeting)
- Engaging with members of the company board
- Discussing or working with other shareholders on matters of mutual interest
- Discussing the matter with company advisers
- Voting contrary to the management proposals at general meetings
- Selling the holding where we evaluate it is in the interests of our clients to do so
- In extreme circumstances, we could requisition a general meeting

If we do not sell a holding, but remain concerned regarding some aspect of governance, strategy or operations, and we are unable to reach an understanding with a company, we may vote against particular, related resolutions at a shareholder meeting and may continue to do so in future years if an issue remains unresolved. However, voting against management remains an unsatisfactory outcome, particularly where subjects may have been discussed before, or prior, to a vote.

[2] http://30percentclub.org/

It is preferable that all discussions with companies should take place confidentially. While we see there is some merit in greater transparency generally, the sensitivity of discussions regarding, for example, a company's future justifies discretion. Further, the willingness of a board to accept the need to change some aspect of its management of the company may hinge on the communications remaining confidential.

SHAREHOLDERS WORKING COLLECTIVELY

STEWARDSHIP CODE PRINCIPLE 5:

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

Working collaboratively with other investors can increase the level of influence over companies and it may therefore be desirable to encourage them to address shareholder concerns. Together our staff have decades of experience of working with other shareholders on stewardship issues and are willing to discuss issues of mutual concern regarding companies. The decision to work collaboratively is taken on a case by case basis but in all such conversations, care is required to avoid inadvertently creating concert parties or inadvertently providing inside information.

We are members of several formal or informal groups which may facilitate collaboration with other investors, including:

- UK Investor Forum
- UK Corporate Governance Forum
- The UK Investment Association
- The Institutional Investors Group on Climate Change
- Investor Group of the 30% Club
- UN-supported Principles for Responsible Investment (as a member of the Old Mutual Group)

Contact regarding collaborative engagement from institutional investments should be made to the head of UK stewardship and governance, Old Mutual Global Investors, at stewardship@omglobalinvestors.com

TRANSPARENCY AND DISCLOSURE

STEWARDSHIP CODE PRINCIPLE 6:

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

Our voting policy: http://www.omglobalinvestors.com/Global/Policies/OMGI-Our-approach-to-voting.pdf sets out how we typically vote in different circumstances and is in line with the UK Corporate Governance Code. Our policy provides that in the UK, we anticipate voting at all meetings. We also intend to vote in all other markets unless we deem it is impractical or the cost of doing so will disadvantage our clients.

Typically, where we have material shareholdings, voting decisions will be reviewed and decided by our in-house team. Conversely, where we have small holdings relative to the overall share capital of a company, we will typically use a third party voting specialist, Glass Lewis, to implement our policy and arrange for voting instructions to be dispatched to the relevant company. The thresholds around which we make voting decisions will vary according to the percentage of share capital we control, the particular issue under consideration and the size of the company.

Where we have a material holding in a company – that is, where the percentage shareholding is such that it facilitates meaningful engagement – we will contact a company if we vote against or abstain on a resolution unless the matter has already been subject to discussion previously.

We currently do not lend stock but in the event we did, our voting policy provides that, generally, we would not recall stock simply to exercise the vote unless the holding is material, the issue is important and there is the prospect of our vote affecting the overall vote outcome.

We publish our voting policy, and our voting activity reports online at: http://www.omglobalinvestors.com/corporate/about-omgi/governance/voting-according-to-our-policy/

When implementing our voting policy, it is our hope that we will be able to support proposals put forward by the companies in which we invest, as we have actively chosen to invest in and support those management teams. However, as responsible stewards we seek to promote high standards of corporate governance and where companies do not meet those standards we may vote against management to encourage improvement. If the issues in question have already been discussed with a company and there are clear signs of improvement, we may vote in support of company management in order to recognise good faith and progress demonstrated by the company, even though there remains scope for further improvement. Inevitably, it is in these cases that we are likely to continue to engage with the company to promote continued improvement.
The issues which most frequently cause us to vote against management include the composition of boards (particularly regarding the degree of independence on a board), capital management (protecting pre-emption rights, for example) and executive remuneration (directors being paid without a sufficient link to performance, or simply being paid too much).

The resolutions on which we vote against or abstain may be seen in the record of our voting at company general meetings, available at: http://www.omglobalinvestors.com/corporate/about-omgi/governance/voting-according-to-our-policy/

MULTIPLE DIRECTORSHIPS?

Our voting policy requires directors to have adequate time to fulfil their duties. As a guide, a director serving on more than five boards may cause us to vote against their re-election or nomination due to concerns that they would not have time to fulfil the roles fully, particularly if any of those appointments are as chair of a company. However, on occasion we may vote for directors where they are on more than five boards, where they demonstrate an ability to manage the workload and taking account of the nature and size of companies where they are directors.

STEWARDSHIP CODE PRINCIPLE 7:

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

We are committed to being open and transparent with respect to our stewardship activity. As such we publish quarterly voting activity reports, on a lagged basis, available in the three months after the quarter end. The reports are in a standard format, available to both clients and public, detailing how we voted each resolution and include explanatory notes where we have voted against management proposals.

We also publish engagement reports online three times a year which illustrate the nature and scale of our engagement. We may choose to remove company identification if we feel it could damage relationships and/or jeopardise our ability to influence companies in future. Undertaking potentially sensitive engagement in public can lead to defensive reaction and entrench views of company management, and therefore we often will prefer confidential, constructive dialogue which enables a trust based relationship, permitting clear and occasionally frank communication and challenge.

Past and present voting and stewardship reports can be found at: http://www.omglobalinvestors.com/corporate/about-omgi/governance/

ASSURANCE

The Stewardship Code states that companies signing up to the code should obtain an independent opinion on their engagement and voting processes. We rely on our internal audit function to carry out assurance of stewardship processes, and will review the need for external assurance in future.

In 2016 an internal audit of our stewardship activity was performed with a particular focus on engagement and voting processes including in the context the Code. An internal audit of our stewardship activity will be undertaken periodically going forward, with the need for and benefit of an audit being considered at least annually. A separate review is being conducted during 2016 to review conflicts of interest across Old Mutual Wealth.

This statement is reviewed annually and updated as necessary.

September 2016

Building better solutions.

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