

UK Stewardship, Corporate Governance and Voting, July – September 2013

This note comments on corporate governance issues and provides examples of corporate governance and stewardship activity by the UK office of Schroders at UK companies during the period July to September 2013.

General approach to engagement and corporate governance

As in previous reports, the following paragraphs illustrate our approach to engagement with companies and our views regarding disclosure of that engagement.

The aim of all stewardship activity by Schroders is to enhance the value of the funds managed for clients. To achieve this aim, we find it essential to take a pragmatic approach in terms of how we deal with companies and how we report our engagement with them. We believe that additional value is created by engaging with and if necessary encouraging change at companies but recognise asset allocation and selection of individual stocks may have a greater impact on the returns in a client's portfolio.

These reports on voting, engagement and corporate governance are necessarily brief and generally hide the names of the companies involved and only provide a sample of activity. We believe it necessary to avoid conducting public discussions if change might involve a climb-down by the company: it is generally preferable for companies (indeed, for any person) to accept and agree with change rather than to have it forced upon them. There are occasions, however, where it is appropriate to reveal contact with companies, particularly in high profile cases or where we have taken a stance that requires explanation and justification.

Corporate Governance Policy

The Schroders 2013 corporate governance policy and our statement regarding our compliance with the UK Stewardship Code 2012 are both available on the Schroders' Internet site. . The statement is at <http://www.schroders.com/global/about-schroders/corporate-responsibility/responsible-investment/uk-stewardship-code>.

We have also published a governance, stewardship and voting policy, at <http://www.schroders.com/staticfiles/Schroders/Sites/global/UK-Corp-Gov-Policy-B.pdf>.

Selection of Company Contacts

Company A

Following another profit warning, we again met the chairman of a company regarding the warning and the governance of the company. We know from other shareholders that there is some pressure to change the chief executive but in this case, we will wait to see further developments and will continue to support the chairman, for now. It could also be argued that the recent profit warning was a follow-on from a previous warning rather than a new shock. Further meetings to discuss progress have been arranged.

Company B

A company proposed an acquisition of another business. We agreed with the logic and agreed to vote for the transaction at an EGM but insisted that the return targets the company claimed it would achieve on the acquisition be incorporated into the remuneration arrangements of the executives. The company agreed and proposed the changes to the pay arrangements. When the company proposed the changes, we made it clear to a number of other shareholders that we were behind the changes and that the changes were a constructive response to shareholder engagement.

We have also had discussions with the chairman as part of a continuing engagement with the company, regarding strategy, performance and governance at the company.

Company C

As part of an on-going engagement, we met the chairman of a company which is in a process of recovery. The discussion covered progress and implementation of the new strategy. We are supportive of the company's approach and were able to confirm that support. The company has cut the dividend whilst it invests in its assets. The share price had fallen on the announcement of the company's new strategy but the plan makes sense and the new CEO has a successful track record in the area.

Company D

We engaged with a US company subject to a takeover bid. Our fund managers were not opposed to a takeover but were opposed to a takeover at the price offered, believing it too low and not reflecting the investments made by the company in recent years. The matter was discussed with members of the board but the board appeared determined to accept the offer on the grounds that no alternative was available; in contrast, it was our case that a valid option was continuing as a going concern, compared with the bid available.

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Company E Royal Bank of Scotland

The change of chief executive was discussed with the chairman. The extent of Government control was also a factor in the discussion.