

UK Stewardship, Corporate Governance and Voting, October – December 2014

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 October to December 2014.

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 2014 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/pdf/Schroders-ESG-Policy-2014.pdf>.

Selection of Company Contacts

Company A

We had discussions with the company regarding a bonus payable to the CEO for the completion of a disposal. We viewed this as a retention bonus. We communicated our concerns to the company highlighting a lack of disclosure surrounding the targets for which this bonus is payable. The company noted that the CEO could potentially walk if not approved. Despite this we voted against as targets will not be fully disclosed until after the 3 year period.

Company B BG Group

Given recent poor performance at BG, and the short tenure of the previous CEO, we are supportive of the appointment of new CEO Helge Lunge. He understands BG's core markets and has a good track record of execution from Statoil, however we had concerns around the remuneration package and process. We felt that the company's process and disclosure around the share award could have been improved. We engaged extensively with the company both one on one and collectively with other investors. Mr Lund and BG revised the Remuneration package to fall in line with their policy which we were supportive of.

Company C

Company have a new senior management team, with little specific industry experience. They have made a number of acquisitions over the years which have been poorly integrated. Despite these issues, a major new acquisition was announced. We met the company to express our concerns about the deal and the risks in a successful integration. We voted against the acquisition.