

# UK Stewardship, Corporate Governance and Voting, April – June 2014

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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 April to June 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

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### Company A

Meeting with chairman. We had long standing concerns about the strategic direction of the company, in particular their international expansion. In our view investments were being made without a robust enough assessment of returns. We lobbied for disposals and an end to growth strategy and change of management. Since then the US and Japan has been exited and the search for a new CFO is underway. We pushed for a more open admission on the challenges facing the business, from the past and a disciplined review by the new CFO.

### Company B

The shares have been very weak over 12 months on the back of confusing guidance and fears that there would be an acquisition. UK Fund Managers who had concerns over the situation have met with the Chairman twice since the start of 2014. We expressed our concerns about acquisitions, asked that a buyback be considered and pointed out gaps in their communication strategy. Since then at an investor day they have clarified views on acquisitions, announced a buy back and will be giving better guidance later in the year. The shares have been up sharply on the back of these announcements.

### Company C

Engaged with company regarding proposed merger. In early discussions we pushed company to take all options into consideration and noted there were other options available away from the merger. Spoke about data showing that mergers of equals tend not to be successful and that we are concerned about the unwieldy management structure. We received assurances on topics raised but this continues to be ongoing for engagement.

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**Company D**

Meeting with Chairman and Remuneration Board Member. Company looking to update their Long term incentive plan 12 months early due to the implementation of the new binding proposal. They are moving the targets towards a 50/50 split on TSR and EPS due to a change in business strategy and that “there’s no right answer”

We pushed them on the lack of disclosure on new recruitment rules which they have informed us they will rectify before they publish their documents and engage with us on these terms.

**Company E**

Meeting with a director of the company as we had concerns regarding the change of targets of the long term incentive plan without engagement and towards a split of more EPS which we weren’t pleased with. Company felt that the change wasn’t material but noted that there was no drive for acquisitions to buy earnings.

Company will engage more openly on any future changes.