

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

Meeting with a retail company regarding changes to bonus targets with a move away from ROCE towards other financial measures. Historically we have engaged with the company on capital discipline and advised them that a move away from these targets would increase our concern in this area. The company has said that they would look to make some changes and re-engage with us.

Company B

Last year we approved a company's acquisition on the condition that forecast returns be incorporated into the executive remuneration arrangements. This year the company has informed us that the targets will be dropped. We have advised the company that we would be unable to support the plan in the changed format.

Company C

The company advised us that they were moving away from TSR to EPS as an LTIP target. We spoke to the Remuneration committee to note that we feel TSR is more aligned with shareholder interests. In addition a recently announced acquisition will be low teens accretive to EPS making the targets easily achievable. We advised the company that we would not support these changes.

Company D

Meeting with the SID raising concerns about board composition, oversight of executives, and strategy implementation. We advised company on changes which we would like to see and will look to continue engagement.

Company E Spirax

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.

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Round table on financial sector reporting.

Schroders in conjunction with Deloitte organised a round table on reporting, specifically looking at the Financial sector. We gathered interested parties including buy and sell side analysts, finance directors, audit chairs and auditors for a frank discussion under Chatham House Rules on accounts and the audit process. A number of suggestions were made about extended audit report, the timing of audit disclosures and format best suited for delivery. It is hoped that by having such open discussions between users and preparers the transparency and effectiveness of company disclosure will be improved.