



ASSET MANAGEMENT

STEWARDSHIP
CODE
STATEMENT

2017

Introduction

The UK Stewardship Code was published in July 2010. It aims to enhance the quality and effectiveness of engagement between institutional investors and companies, and to help improve long-term returns to shareholders. It also sets out principles of good practice that the Financial Reporting Council (FRC) believes institutional investors should aspire to when engaging with investee companies. The Code was updated in September 2012 and in late 2016 the FRC conducted the first review of signatories' Statements of Compliance. Royal London Asset Management (RLAM) was assessed at Tier 1 and full details can be found [here](#) on the FRC's website.

RLAM's Approach to Stewardship

RLAM is fully supportive of the Stewardship Code and complies with the Code, in particular the seven principles contained in the document. We have dedicated significant resources to implementing our stewardship activities which is led by a specialist Responsible Investing team and supported by our fund managers and credit research analysts. RLAM's commitment to being a long-term steward of our clients' assets is outlined in our [**Responsible Investment Policy**](#) which describes our general approach to responsible investing across each of our asset classes.

This Stewardship Code Statement is intended to compliment that Policy and to outline how we meet the commitments of the Stewardship Code. We report regularly on our responsible investing activities on our website, detailing how we have discharged our responsibilities as an institutional shareholder.

STEWARDSHIP CODE STATEMENT

[Principle 1](#)

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

We have been a signatory to the Stewardship Code since its inception and remain supportive of the principles contained within it. We discharge our Stewardship responsibilities through our proxy voting activities and ongoing company engagement.

Approach to Engagement

We routinely monitor our investee companies not only through our own research but also through regular engagement meetings with management and non-executive directors where we discuss a range of issues relating to strategy and governance. Our aim from such activity is to satisfy ourselves that we are comfortable with the overall strategy that is being pursued, that the board and its various sub-committees are operating effectively, and that the company is aware of and appropriately managing all material risk factors, including environmental and social risks where relevant.

During the course of internal research or engagement, should we become concerned that value is being actually or potentially jeopardised we will make our views known to the company through a direct meeting with management and/or writing to the company outlining our concerns. We take the view that good company engagement has a positive cumulative effect. It is through successive meetings over time that we can build a better understanding of management's intentions, discuss our perspective with them, and hopefully build support for a particular course of action or strategy.

We are prepared to pursue meetings with various members of the board, dependent upon the nature of the issue that we are looking to address. However we also take the view that there will be occasions where our views are so different from that of management or other shareholders that the best way we can pursue our clients interest will be to dispose of our holding.

Our underlying belief is that management is appointed by the shareholders to manage the business in the best interest of shareholders over time. Through our engagement we are attempting to assess how well companies are discharging their stewardship duties over the assets of the business. Our goal is to ensure that by correctly fulfilling these duties the business can be deemed to be in a better position than when the current management team gained control. Therefore our governance activities are not intended to micro-manage the company but instead to be focused upon the more significant issues, for instance on corporate strategy, major acquisitions, risk management or management change.

A significant proportion of our engagement activity is conducted by the fund manager or analyst who is closest to the company and forms part of our overall assessment of the attractiveness of the investment opportunity. In addition, we have corporate governance and responsible investment specialists that provide additional expertise on environmental, social and governance (ESG) issues that are relevant to the company in question. Our specialists provide an additional layer of monitoring and engagement and regularly meet with companies to discuss ESG risks. This is done in collaboration and consultation with our fund managers, and information is shared to help inform investment decision-making. Issues where there are significant concerns or where there is an important point of principle are escalated to RLAM's Chief Investment Officer (CIO). In addition the CIO will be more routinely involved where there are instances of collective engagement, especially where there may be material action required.

Our approach to engagement is often conducted from an equity investor's perspective given that in most instances there is a limited amount of leverage that a bond holder can exercise over the issuing company. However, we also provide feedback to companies from a bondholder perspective or act on behalf of clients to engage with companies where we hold debt. We are increasingly speaking to companies in our fixed income portfolios about strategic issues that may affect our investment in the long-term. In 2016 we had proactive engagements with companies in the utilities and social housing sectors, and are increasingly providing ESG research to the Fixed Income team to assist with their initial analysis of investment opportunities.

In addition, corporate bond restructurings may involve a bondholder vote, for which we would actively participate. We ensure that we approach such decisions in the same way that we would for an equity issue; aiming to support management where appropriate but always seeking to enhance value on behalf of our underlying clients.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

RLAM is fully committed to the highest degree of professionalism, integrity and governance in doing business and ultimately to treating our customers in a fair and consistent manner.

In our activities we may face actual and potential conflicts of interest. Conflicts may arise between RLAM and its staff and clients; one RLAM client and another; and between RLAM and the Royal London Group. RLAM's Policy is to take all reasonable steps to properly identify and manage conflicts of interest and to always act in the best interest of our clients, so that transactions are effected on terms which are not materially less favourable to the client than if the conflict had not existed.

RLAM has a detailed conflicts of interest policy that all members of staff are required to read and adhere to. Overall responsibility lies with RLAM Senior Management who are responsible for ensuring that RLAM's systems, controls and procedures are adequate to identify, manage and monitor Conflicts of Interest. RLAM Senior Management has responsibility for ensuring that RLAM staff are aware of the aspects of the Policy relevant to them. The policy was last reviewed in March 2016 and is updated annually by the Risk and Compliance team.

Members of staff are required to identify and report conflicts of interest to their line manager who will in turn inform RLAM Compliance who administer and maintain the Conflicts of Interest Register and Conflicts of Interest Events Log. RLAM Compliance will work with line management to eliminate conflicts of interest, record conflicts and the mitigating action in the Conflicts of Interest Register (where applicable) and Conflicts of Interest Events Log, and report the situation to the Conflicts Working Group for consideration. The Group's Board is ultimately accountable for the management of risk within the Group and reviewing the effectiveness of internal control, including those related to conflicts of interest. Failure to adhere to this Policy may be held to be a breach of an employee's contract. Failure of a person to declare an interest will be regarded as misconduct and may lead to disciplinary action being taken against the individual concerned.

The Policy provides detailed guidance with respect to management of conflicts that might arise in relation to the order and execution of trades, access to inside information, management of client accounts, voting and engagement, confidential client information, gifts and entertainment, additional employment or consulting activities, and new product launches.

RLAM has policies and procedures in place to prevent the occurrence of potential and actual conflicts and to manage them as they arise. We maintain IT systems to minimize the flow of information between different business units of RLAM that may influence decision-making. Members of staff are required to adhere to the Execution and Allocation Policy, Gifts and Benefits Policy, and the Personal Account Dealing Policy. The business also maintains a Conflicts of Interest Register and a Conflicts of Interest Events Log.

Conflicts may also arise where RLAM is managing internal funds for Royal London Group, its parent company. We manage this risk by ensuring clear divisions of responsibility between RLAM and the Investment Office of Royal London Group. Royal London Group business must be dealt with at arm's length, specifically in respect to investment management business undertaken by RLAM. RLAM has an appointed client account manager that is responsible for managing our relationship with the Group.

Should a conflict be unavoidable, RLAM will strive for appropriate and sufficiently detailed disclosure to the client. The disclosure must include the general nature of the conflict and/or the sources of that conflict and be provided before undertaking the relevant business for the client. This will allow the client make an informed decision on whether to accept the conflict or terminate the activity.

A summary of our Conflicts of Interest Policy is available on our website and the full policy will be made available on request.

Principle 3

Institutional investors should monitor their investee companies.

As described above, we undertake a significant number of meetings with management of the companies in which we invest client assets. These meetings may cover a range of topics from corporate strategy, risk management, corporate governance, board composition and succession and remuneration issues.

We use these meetings to better understand management and the board's views on strategy, the financial results and other issues as well as to express our own position and any concerns that we might have. In addition to these regular meetings we conduct our own research on the companies, follow the financial results and other announcements in order to build as good a picture as possible on the attractiveness of the company and its prospects. Finally, we purchase third party ESG research, to help us monitor our investee company performance and identify any outliers.

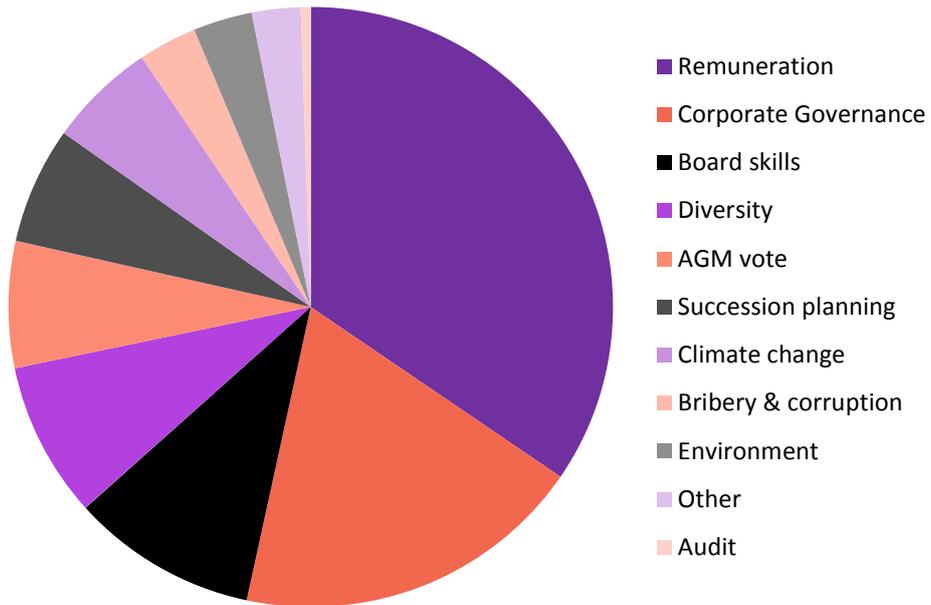
We have two approaches to monitoring investee companies. Firstly through pro-active engagement and secondly through reactive engagement. In our pro-active engagement, each year we identify a list of topics that we believe are of strategic importance to the companies we invest in and we will undertake a programme of engagement with companies to explore those issues and understand how companies are managing any related risks or opportunities. We use this opportunity to encourage companies to adopt best practice, or address any poor practices that may be affecting shareholder value. Each year we also select a list of companies that we feel require further engagement on issues like business strategy, succession planning, board governance, executive remuneration or sustainability.

Our reactive engagements are largely driven by events in the market, including acquisitions and disposals, management or governance changes, financial performance, proxy voting results, health and safety, or environmental performance. In some cases, we will contact companies that warrant further engagement, and in other cases companies will seek out our views as major shareholders. In 2016 this was focused predominantly on executive remuneration as companies sought feedback on proposed changes to their Remuneration Policies ahead of renewal votes during the 2017 AGM season.

We have a system to record all of our interactions with companies ESG issues. For each interaction with a company, we will track information such as who we met with, the topic discussed, and the level of improvement made by the company in our view (from no improvement to substantial improvement). This allows us to monitor and track how effective our company interactions are. Where we have undertaken engagement with several companies on a particular topic, we will write a summary report detailing our findings and any progress we have made or best practices we have learned. This information is regularly shared with our clients and published on our website.

2016 Engagement Activity

In addition to our regular meetings with management to discuss strategy and financial performance, we engaged with companies on the following environmental, social and governance (ESG) topics in 2016:



The companies we contacted on ESG issues in 2016 include the following:

3i Group	Fresenius Medical	Royal Dutch Shell
Aberdeen	Care AG & Co. KGaA	SEGRO
Affinity Sutton	General Motors	Senior
Alphabet	Genesis Housing	Severn Trent
AMGEN Inc.	GKN	Shell
Aryzta	Glaxosmithkline plc	Shire plc
Ashtead Group	Goodwin	Sky plc
Astrazeneca plc	Grainger	Smith & Nephew plc
Atkins	Green King	Smiths
Aviva	Greencore	Sophos
BAT	Halfords	Spectris
BBA Aviation	HSBC	Sports Direct
BCA Marketplace	Hunting	St Modwen
BG Group	IG Group	Statoil
BHP	IHG	Stryker Corporation
Bovis Homes	Inchcape	Synthomer
BP plc	Inmarsat	Thames Water
Brewin Dolphin	Innogy	Travis Perkins
BTG	JD Sports	Tullow Oil
Burberry	Johnson & Johnson	Unilever plc
Capita	Keller	Unite plc
Chevron	Kier Group	United Utilities
Cineworld	Man Group	Veolia
Close Brothers	Marshalls	Victrex
Cobham	Marstons	Vitec
Colgate-Palmolive	Merck & co., Inc.	Walgreens
Company	Neopost SA	Worldpay
Compass Group	Nestle	WPP
Croda international public limited company	Northumbrian Water	WS Atkins Yorkshire Water
Danone	Novartis AG	
DS Smith	Old Mutual	
easyJet	Paragon	
ECOLAB INC.	Places for People	
eSure	PolyMetal	
ExxonMobil	Reckitt Benckiser	
	Roche Holding AG	

Further details and case studies of our engagement activity throughout the year are published quarterly in our **Responsibility Matters** reports on our website.

Inside Information

When engaging with companies, it is our strong preference to not be made an insider, as this restricts our ability to trade. However, on occasion, we will voluntarily agree to be given inside information in order to aid in our discussion with management or the board. Should we agree to be taken inside, the company is immediately put on our Restricted Stock List, which is signed off by a member of our executive management committee. The List is programmed into our trading systems and all fund managers in the business will be unable to trade the stock. Once the information is made public, a member of the executive management committee will provide sign off to allow the fund managers to lift the trading restriction.

There are occasions where we have been taken inside involuntarily or inadvertently in our discussions with a company. In accordance with our Conflicts of Interest Policy, RLAM staff are required to immediately put the stock on the Restricted Stock List, as described above, if they feel they were provided information that is not in the public domain. Staff are provided training to help identify and understand what constitutes inside information.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

A significant proportion of our meetings with company representatives are with the executive management. This is an effective route for questions regarding strategy and operational matters. We also routinely schedule meetings with non-executive directors to better understand companies' overall approach to governance, risk management and long-term strategy.

Should we feel that an issue has not been sufficiently addressed by management, we will seek a meeting with the Chairman or Senior Independent Director. We will on occasions attend a company AGM, or escalate our concern publicly and/or to other institutional investors who we believe may share our views. We reserve the right to utilise the full range of tools at our disposal if we judge that value is or maybe undermined. How we will prioritise these actions will depend upon the specific circumstances that exist and our view as to how they can best be resolved.

Examples

For example in 2016 we both wrote to and met with Sky plc following the announcement of the appointment of James Murdoch as Chairman of the group. We expressed our concerns back in January 2016 as to whether adequate controls were in place to protect both the company and minority shareholders should Fox make a bid for the remaining shares in the company. We met again with the company to reiterate these concerns and ultimately voted against Murdoch's appointment at the AGM. We chose to then speak publically as we felt assurances given by the company did not sufficiently address shareholder concerns. Following the announcement of a bid by Fox we again went public to voice our concerns with the bid and the impartiality of the Board.

Following on from an escalation in our engagement with Sports Direct in 2015, we continued to express our concerns with the governance of the company in 2016. Alongside other institutional investors we publically stated our intentions to vote against management at the Company following the numerous governance failings and employment practices identified at the company. Some small changes have taken place following the sizable vote against management at the AGM in September 2016 but we retain our concerns and will continue to monitor the company closely into 2017.

Principle 5

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

We use engagement as our primary lever if we feel that a particular issue or risk requires addressing. Engagement is pivotal to us developing meaningful long-term relationships with our investee companies, which in turn affords us a voice in shaping their corporate best practice. We typically meet with The Chairman, Senior Independent Director and Non-Executive Directors if we have a material concern regarding a company's divergence from the Code. We attend the General Meetings of companies when considered appropriate.

There are two particular types of circumstances in which we will decide to engage with other shareholders: firstly, where we believe that individual one-to-one meetings appear not to be achieving sufficient progress in addressing issues of concern; and secondly where we believe the situation is of sufficient seriousness that immediate progression to a collective meeting is appropriate.

Where our involvement might help to preserve or enhance shareholder value, we see it as our role as a responsible investor to engage collaboratively, act as signatory or provide support and input. We are members of formal and informal corporate governance networks, such as the Principles for Responsible Investment (PRI), the International Corporate Governance Network (ICGN), and the Institutional Investors Group on Climate Change.

Current examples of collective engagement include meetings on the subject of succession planning with FTSE 100 companies; and collaboration regarding corporate tax strategy and transparency and work addressing diversity in the Boardroom through our membership of the 30% Club.

Principle 6

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

We believe it is the responsibility of institutional investors to act as owners of the companies in which they invest. As such, we exercise our voting rights to promote good corporate governance in investee companies. We vote at meetings of UK companies (where the bulk of our assets are invested) and on occasions at the meetings of some overseas companies, for example those held in our Sustainable Funds or where clients require it. In addition we will vote on our fixed interest holdings where the occasion arises.

Our **proxy voting policy** is publically disclosed on our website. In applying this policy, we use discretion and have due regard for the particular circumstances of the company whilst vigorously pursuing the interests of our customers and clients. We do not automatically support the board, but will analyse each resolution to determine if the company is acting in accordance with our policy and with local best practice. In making our voting decisions, we aim to be consistent from year to year. If we have previously abstained or voted against a resolution, we will change our vote to support management only where we feel the company has made a significant change in its policy or approach. We will also consider any engagement we have had with the company in the year, and reflect our thoughts on the progress of this engagement in our vote and our public and private comments to the company.

We utilise the services of IVIS and Manifest to provide information, highlight controversial ballot items, and provide a platform to execute our proxy votes. However these voting services are there to inform only; RLAM will use its voting policy to make the final voting decision. Voting recommendations for our actively held stocks are circulated and reviewed by an internal committee of fund managers, ESG staff and the Chief Investment Officer prior to being executed.

For companies held in our actively managed funds, we will write to the company to inform them of the rationale for our vote in cases where we abstain or vote against the management recommendation in advance of the vote. We feel this is an effective tool for sharing our views with the board on key issues where we have concerns, and helps encourage dialogue with non-executive directors on important corporate governance matters.

We lend stock on some of our client accounts and we will recall the stock in order to exercise our voting rights if it is considered in our clients' best interests to do so.

We think transparency is important, that is why we were one of the first asset managers to publically disclose all of our votes on our website. Our votes are disclosed monthly in arrears in an **online searchable database** on our website, including the rationale for any votes against management or where we abstain.

The database includes RLAM's full voting record from January 2015. It also includes the voting records of the Cooperative Asset Management (TCAM) for the period of January 2002 and December 2013 (TCAM was acquired by RLAM in July 2013).

The voting records of the RLAM-managed funds prior to the integration of TCAM are available **here**.

2016 Proxy Voting

For 2016, we voted 11,576 resolutions at 703 companies, the vast majority of which were UK listed companies. Overall we voted for 94% - of the proposals, against 5% and abstained on 1%. By far the category we most regularly vote against management is on remuneration. For remuneration votes, we voted for 69%, against 23% and abstained on 8%.

Principle 7

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

As described above, we have a system to track and record our engagement on ESG issues and to monitor how effective our engagements have been. This includes information on who we met with, what topics were discussed, and the progress made. We use this information to inform our reporting to clients.

We also regularly disclose our voting and company engagement activity via our quarterly report, "**Responsibility Matters**" and on our **website**. We have a comprehensive **online database** disclosing all of our proxy votes monthly in arrears as described above.

We are happy to respond to any specific requests for information from clients on our stewardship activities.

Assurance

We do not seek specific external assurance for our stewardship activities, as we feel the cost of doing so is not in the best interests of our clients. We do however have internal controls in place to ensure we follow our own procedures and policies, in particular regarding Proxy Voting, Conflicts of Interest, Personal Account Dealing, Execution and Allocation, and Gifts and Benefits. These policies and procedures are monitored by the Risk and Compliance team.

In addition, our external auditors regularly review our procedures and controls to ensure we are meeting the standards we have agreed with our clients. The external auditors last reviewed our proxy voting procedures in October 2016.

For More Information

Please contact the Responsible Investment Team at **sustainable@rlam.co.uk**

Royal London Asset Management
March 2017

Appendix: Other Documents and Disclosures

Responsible Investment Policy

https://www.rlam.co.uk/Documents-RLAM/Sustainable%20Investing/Responsible%20Investment%20Policy_March%202015.pdf

Proxy Voting Policy

<https://www.rlam.co.uk/Documents-RLAM/Sustainable%20Investing/Voting%20Policy%202016.pdf>

Proxy Voting Database (TCAM, plus RLAM from January 2015)

<http://www.rlam-voting.co.uk/voting/>

RLAM Voting Records (prior to the acquisition of TCAM)

<https://www.rlam.co.uk/Documents-RLAM/Voting/RLAM%20Proxy%20Voting%20Record%202H%202013%20and%201H%202014.pdf>

Responsibility Matters – quarterly report on responsible investment activity

<https://www.rlam.co.uk/Home/Institutional-Investor/About/Responsible-and-sustainable-investing/Responsible-Investing-Documents-Archive/>

Principles for Responsible Investment 2015 Annual Assessment

<https://www.rlam.co.uk/Documents-RLAM/Sustainable%20Investing/Royal%20London%20Asset%20Management%202014%20assessment%20results.pdf>

Conflicts of Interest Policy

<http://www.rlam.co.uk/Documents-RLAM/Responsible%20Investing/Conflicts%20of%20Interest%20Summary%20-%20FINAL.pdf>

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