



ASSET MANAGEMENT

STEWARDSHIP CODE STATEMENT

2014

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 and reissued in September 2012.

RLAM'S APPROACH TO STEWARDSHIP

RLAM is supportive of the Stewardship Code and we comply with the Code and in particular the seven principles contained in the document. This document is intended to outline our overall approach to the stewardship of the securities holdings that we manage on behalf of clients. We report regularly on our governance activities relating to these principles, 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 proxy voting 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 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 and therefore understand that it is through a series of 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. In our engagement, we are attempting to assess how well companies are discharging their duties to steward the assets of the business during their time in charge, in order that the business can be deemed overall 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 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 expertise on environmental, social and governance (ESG) issues that are relevant to our investee companies. Our specialists provide another 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 the 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 largely 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, there are occasions where we provide feedback to companies from a bondholder perspective or act on behalf of clients to engage with companies where we hold debt. In addition, corporate bond restructurings may involve a bondholder vote, in 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.

Our policy on conflicts of interest is that if we become aware that there could potentially be an issue, then the senior management will discuss the circumstances in order to ensure that these are appropriately managed so that we always act in the best interests of each individual client. We have a clearly defined 'Conflicts of Interest Policy' which ensures that all staff understand their responsibilities when dealing with our clients assets. This policy is made available to clients upon 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 and 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, which helps us monitor our investee company performance and identify any outliers.

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 occasion 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.

Principle 5

Institutional investors should be willing to act collectively with other investors where 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. Our view is that individual one-to-one meetings do generally achieve a satisfactory outcome if it is understood that progress may take a series of meetings over time. However we have been party to collective meetings and have seen the benefits that they can bring both in terms of demonstrating the breadth of feeling on an issue and also to convince management that it should be addressed.

We carefully monitor adherence to the UK Corporate Governance Code. We would meet with the Chairman, Senior Independent Director and Non-Executive Directors if we have held a material concern regarding a company's divergence from the Code. We attend the General Meetings of companies when considered appropriate.

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 routinely vote at meetings of UK companies (where the bulk of our assets are invested) and on occasion at the meetings of some overseas companies, but only where we might have a significant interest. In addition we will vote on our fixed interest holdings where the occasion arises.

Our proxy voting policy is publicly 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 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 only to inform; internal staff always take the final voting decision. Proxy analysis and voting recommendations are provided by RLAM's specialist Governance Team. The voting recommendations are circulated and reviewed by an internal committee of fund managers, ESG staff and the Chief Investment Officer prior to being executed by the Governance Team.

For our most actively held companies, 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. 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 recall the stock in order to exercise our voting rights if it is considered in our clients' best interests to do so.

Principle 7

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

We are happy to respond to any specific requests for information from clients on our stewardship activities. We also report regularly on our voting and company engagement activity via quarterly reports and our website.

More Information

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APPENDIX

Stewardship and the code

1. Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole.
2. In publicly listed companies responsibility for stewardship is shared. The primary responsibility rests with the board of the company, which oversees the actions of its management. Investors in the company also play an important role in holding the board to account for the fulfilment of its responsibilities.
3. The UK Corporate Governance Code identifies the principles that underlie an effective board. Similarly, the UK Stewardship Code sets out the principles of effective stewardship by investors, and the ways in which institutional investors can best exercise their stewardship responsibilities, which in turn gives force to the “comply or explain” system.
4. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.
5. Institutional investors’ activities include decision-making on matters such as allocating assets awarding investment mandates, designing investment strategies, and buying or selling specific securities. The division of duties within and between institutions may span a spectrum, such that some may be considered asset owners and others asset managers.
6. Broadly speaking, asset owners include pension funds, insurance companies, investment trusts and other collective investment vehicles. As the providers of capital, they set the tone for stewardship and may influence behavioural changes that lead to better stewardship by asset managers and companies. Asset managers, with day-to-day responsibility for managing investments, are well positioned to influence companies’ long-term performance through stewardship.
7. Compliance with the Code does not constitute an invitation to manage the affairs of a company or preclude a decision to sell a holding, where this is considered in the best interest of clients or beneficiaries.

Application of the code

1. The UK Stewardship Code traces its origins to ‘The Responsibilities of Institutional Shareholders and Agents:

Statement of Principles,’ first published in 2002 by the Institutional Shareholders Committee (ISC), and which the ISC converted to a code in 2009. Following the 2009 Walker Review of governance in financial institutions, the FRC was invited to take responsibility for the Code. In 2010, the FRC published the first version of the UK Stewardship Code, which closely mirrored the ISC code. This edition of the Code retains the spirit of the 2010 Code.

2. The Code is directed in the first instance at institutional investors, by which is meant asset owners and asset managers with equity holdings in UK listed companies. Institutional investors may choose to outsource to external service providers some of the activities associated with stewardship. However, they cannot delegate their responsibility for stewardship. They remain responsible for ensuring those activities are carried out in a manner consistent with their own approach to stewardship. Accordingly, the Code also applies, by extension, to service providers, such as proxy advisors and investment consultants.
3. The FRC expects signatories of the Code to publish on their website, or if they do not have a website in another accessible form, a statement that:
 - describes how the signatory applies the seven principles of the Code and discloses the specific information requested in the guidance notes to the principles; or
 - if one or more of the principles have not been applied or the specific information requested in the guidance has not been disclosed, explains why the signatory has not complied with those elements of the Code.
4. Disclosures under the Code should improve the functioning of the market for investment mandates. Asset owners should be better equipped to evaluate asset managers, and asset managers should be better informed, enabling them to tailor their services to meet asset owners' requirements.
5. In particular the disclosures should, with respect to conflicts of interest, address the priority given to client interests in decision-making; with respect to collective engagement, describe the circumstances under which the signatory would join forces with other institutional investors to ensure that boards acknowledge and respond to their concerns on critical issues and at critical times; and, with respect to proxy voting agencies, how the signatory uses their advice.
6. The statement of how the Code has been applied should be aligned with the signatory's role in the investment chain.
7. Asset owners' commitment to the Code may include engaging directly with companies or indirectly through the mandates given to asset managers. They should clearly communicate their policies on stewardship to their managers. Since asset owners are the primary audience of asset managers' public statements as well as client reports on stewardship, asset owners should seek to hold their managers to account for their stewardship activities. In so doing, they better fulfil their duty to exercise stewardship over their assets.
8. An asset manager should disclose how it delivers stewardship responsibilities on behalf of its clients. Following the publication in 2011 of the Stewardship Supplement to Technical Release AAF 01/06, asset managers are encouraged to have the policies described in their stewardship statements independently verified. Where appropriate, asset owners should also consider having their policy statements independently verified.
9. Overseas investors who follow other national or international codes that have similar objectives should not feel the application of the Code duplicates or confuses their responsibilities. Disclosures made in respect of those standards can also be used to demonstrate the extent to which they have complied with the Code. In a similar spirit, UK institutions that apply the Code should use their best efforts to apply its principles to overseas equity holdings.

10. Institutional investors with several types of funds or products need to make only one statement, but are encouraged to explain which of their funds or products are covered by the approach described in their statements. Where institutions apply a stewardship approach to other asset classes, they are encouraged to disclose this.
11. The FRC encourages service providers to disclose how they carry out the wishes of their clients with respect to each principle of the Code that is relevant to their activities.
12. Signatories are encouraged to review their policy statements annually, and update them where necessary to reflect changes in actual practice.
13. This statement should be easy to locate on the signatory's website (or if they do not have a website in another accessible form), and should indicate when the statement was last reviewed. It should include contact details of an individual who can be contacted for further information and by those interested in collective engagement. The statements of signatories who do not have their own website can be found on the FRC website.
14. The FRC retains on its website a list of asset owners, asset managers and service providers that have published a statement on their compliance or otherwise with the Code, and requests that signatories notify the FRC when they have done so, and when the statement is updated.
15. The FRC regularly monitors the take-up and application of the Code. It expects the content of the Code to evolve over time to reflect developments in good stewardship practice, the structure and operation of the market, and the broader regulatory framework. Unless circumstances change, the FRC does not envisage proposing further changes to the Code until 2014 at the earliest.

Principles and guidance

Institutional investors should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities

Guidance

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings. The policy should disclose how the institutional investor applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.

The statement should reflect the institutional investor's activities within the investment chain, as well as the responsibilities that arise from those activities. The stewardship responsibilities of those whose primary activities are related to asset ownership may be different from those whose primary activities are related to asset management or other investment-related services.

Where activities are outsourced, the statement should explain how this is compatible with the proper exercise of the institutional investor's stewardship responsibilities and what steps the investor has taken to ensure that they are carried out in a manner consistent with the approach to stewardship set out in the statement. The disclosure should describe arrangements for integrating stewardship within the wider investment process.

2. Have a robust policy on managing conflicts of interest in relation to stewardship, which should be publicly disclosed

Guidance

An institutional investor's duty is to act in the interests of its clients and/or beneficiaries. Conflicts of interest will inevitably arise from time to time, which may include voting on matters affecting a parent company or client. Institutional investors should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge.

3. Monitor their investee companies

Guidance

Effective monitoring is an essential component of stewardship. It should take place regularly and be checked periodically for effectiveness. When monitoring companies, institutional investors should seek to:

- keep abreast of the company's performance;
- keep abreast of developments, both internal and external to the company, that drive the company's value and risks;
- satisfy themselves that the company's leadership is effective;
- satisfy themselves that the company's board and committees adhere to the spirit of the UK Corporate Governance Code, including through meetings with the chairman and other board members;
- consider the quality of the company's reporting; and
- attend the General Meetings of companies in which they have a major holding, where appropriate and practicable.

Institutional investors should consider carefully explanations given for departure from the UK Corporate Governance Code and make reasoned judgements in each case. They should give a timely explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position. Institutional investors should endeavour to identify at an early stage, issues that may result in a significant loss in investment value. If they have concerns, they should seek to ensure that the appropriate members of the investee company's board or management are made aware. Institutional investors may or may not wish to be made insiders. An institutional investor who may be willing to become an insider should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done. Institutional investors will expect investee companies and their advisers to ensure that information that could affect their ability to deal in the shares of the company concerned is not conveyed to them without their prior agreement.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value

Guidance

Institutional investors should set out the circumstances in which they will intervene actively and they should assess the outcomes of doing so on a regular basis. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, being underweight is not, of itself, a reason for not intervening. Instances when institutional investors may want to intervene include when they have concerns about the company's strategy and performance, its governance or its approach to the risks arising from social and environmental matters. Initial discussions should take place on a confidential basis. However, if boards do not respond constructively when institutional investors intervene, then institutional investors will consider whether to escalate their action, for example by:

- holding additional meetings with management specifically to discuss concerns;
- expressing concerns through the company's advisers;
- meeting with the chairman, senior independent director, or with all independent directors;
- intervening jointly with other institutions on particular issues;
- making a public statement in advance of the AGM or an EGM;
- submitting resolutions at shareholders' meetings; and
- requisitioning an EGM, in some cases proposing to change board membership.

5. Be willing to act collectively with other investors where appropriate

Guidance

At times, collaboration with other investors may be the most effective manner in which to engage. Collaborative engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value. Institutional investors should disclose their policy on collective engagement, which should indicate their readiness to work with other investors through formal and informal groups when this is necessary to achieve their objectives and ensure companies are aware of concerns. The disclosure should also indicate the kinds of circumstances in which the institutional investor would consider participating in collective engagement.

6. Have a clear policy on voting and the disclosure of voting activity

Guidance

Institutional investors should seek to vote on all shares held. They should not automatically support the board. If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. In both instances, it is good practice to inform the company in advance of their intention and the reasons behind this. Institutional investors should disclose public voting records. Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services. Institutional investors should disclose their approach to stock lending and recalling lent stock.

7. Report periodically on their stewardship and voting activities

Guidance

Institutional investors should maintain a clear record of their stewardship activities. Asset managers should regularly account to their clients or beneficiaries as to how they have discharged their responsibilities. Such reports will be likely to comprise qualitative as well as quantitative information. The particular information reported and the format used, should be a matter for agreement between agents and their principals. Asset owners should report at least annually to those to whom they are accountable on their stewardship policy and its execution. Transparency is an important feature of effective stewardship. Institutional investors should not, however, be expected to make disclosures that might be counterproductive. Confidentiality in specific situations may well be crucial to achieving a positive outcome. Asset managers that sign up to this Code should obtain an independent opinion on their engagement and voting processes having regard to an international standard or a UK framework such as AAF 01/062. The existence of such assurance reporting should be publicly disclosed. If requested, clients should be provided access to such assurance reports.

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