

Corporate Governance: The Asset Manager

**The Role, The Rights and The Responsibilities:
Past, Present and Future**



Guy R Jubb, Global Head of Governance & Stewardship
guy_jubb@standardlife.com

September 2015

Overview

1. The evolution of current corporate governance models
2. The emergence of investor stewardship
3. The responsibilities of asset managers and how they are managed
4. The future – the factors that will drive change

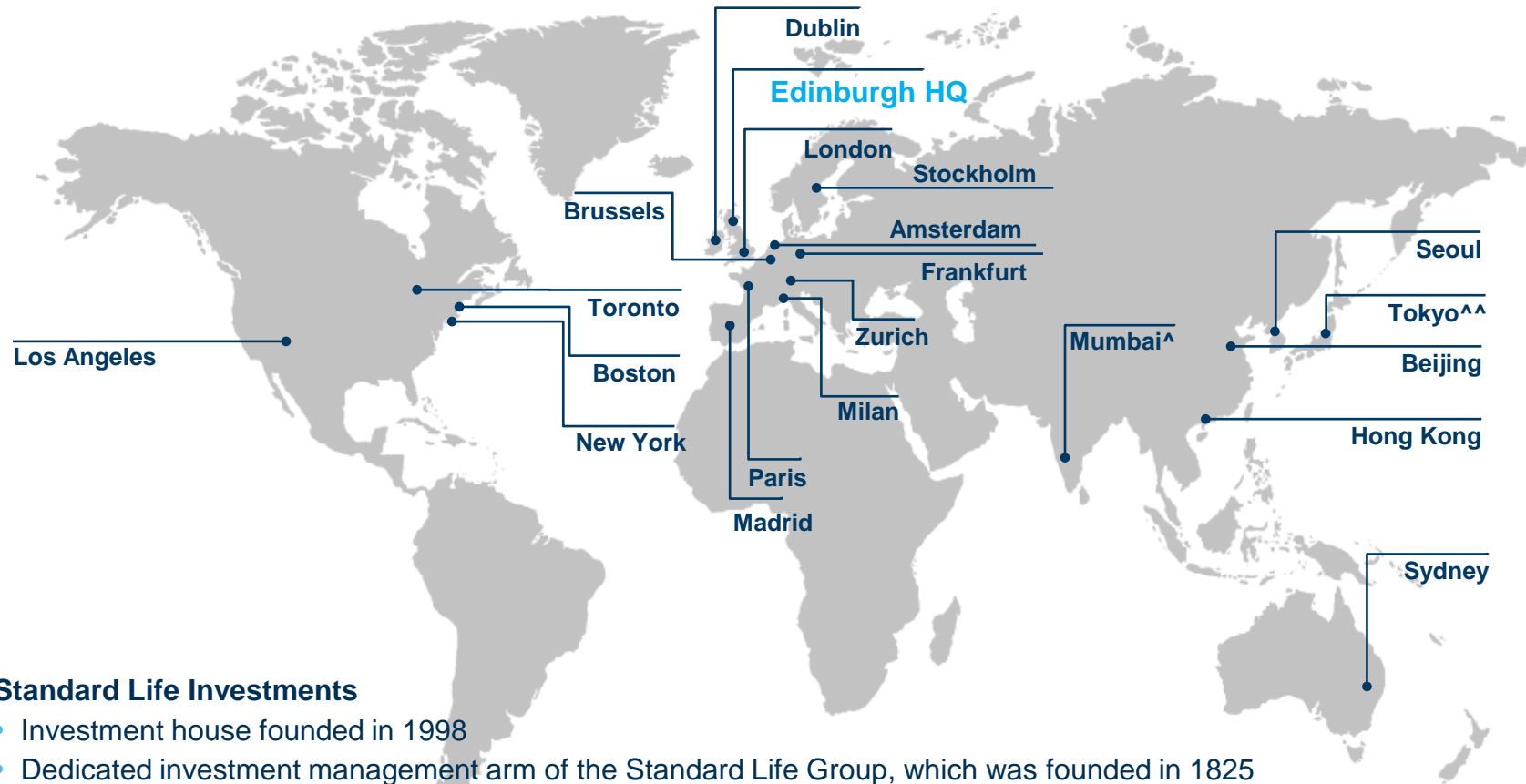
Standard Life Investments ('SLI')

1. Standard Life founded in 1826 – a long and rich heritage
2. Standard Life Investments founded in 1998
3. A subsidiary of Standard Life plc, a FTSE 100 company
4. Headquartered in Edinburgh, Scotland

SLI: What Do We Do

1. Manage assets of £250 billion on behalf of clients
2. Our third party clients account for 50% of assets under management
3. We invest in a wide range of asset classes: real estate, equities, bonds
4. We manage our portfolios actively and for the long-term

SLI: Our Global Footprint



Standard Life Investments

- Investment house founded in 1998
- Dedicated investment management arm of the Standard Life Group, which was founded in 1825
- Clearly differentiated, successful investment philosophy and process
- Headquartered in Edinburgh

^ Joint Venture with HDFC Asset Management, which is located in Mumbai

^^ Strategic Partnership with Sumitomo Mitsui Trust Bank Limited

Source: Standard Life Investments, 30 June 2015

The Evolution of UK Corporate Governance: Overview

1. The Foundation Codes – Cadbury, Greenbury, Hampel
2. The Regulator – The Financial Reporting Council ('FRC')
3. The FRC's Codes - The UK Corporate Governance Code, The UK Stewardship Code and The Audit Firm Governance Code

The Cadbury Code (1992)

1. Cadbury Committee set up following financial scandals: Polly Peck, BCCI and Robert Maxwell
2. Chaired by Sir Adrian Cadbury – comprised issuers, investors and professionals
3. Focussed on the financial aspects of corporate governance – in particular audit committees
4. Recommended principles adopted on a ‘comply or explain’ approach
5. Encouraged issuer transparency and conversations between issuers and asset managers about corporate governance

The Greenbury Committee (1995)

1. Emerging political and public concern about high levels of executive pay in recently privatised utility companies. Also 'rewards for failure'
2. Recommended that all companies have Remuneration Committees which should submit a full report each year to the shareholders
3. Recommended that 'Institutional Shareholders should be encouraged to take an active interest in remuneration
4. Failed to remedy the problems it was set up to address

The Hampel Committee (1998)

1. Updated Cadbury and Greenbury. Combined, harmonised and clarified their recommendations.
2. Relied on broad principles and a 'common sense' approach rather than 'box-ticking'
3. 'The single overriding objective shared by all listed companies is the preservation and the greatest practical enhancement over time of their shareholders' investment'
4. 'Institutional shareholders have a responsibility to make considered use of their votes'
5. 'Companies and institutional shareholders should each be ready to enter into a dialogue based on the mutual understanding of objectives'

The Financial Reporting Council ('FRC')

1. UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment
2. Accountable to UK Government's Department of Business Innovation and Science (BIS)
3. Set up after the collapse of Enron (2001), Arthur Andersen (2002) and WorldCom (2002)
4. Places importance on flexibility and upholds a principled based 'comply or explain' approach
5. Is responsible for maintaining its Codes and overseeing their implementation

The FRC's Codes

1. The UK Corporate Governance Code
2. The UK Stewardship Code
3. The Audit Firm Governance Code

The Impact of the Financial Crisis (2008)

1. Called into question the effectiveness of UK approach to corporate governance
2. Why did 'soft regulation' fail?
3. Where were the auditors?
4. Where were the institutional investors?
5. Was 'comply or explain' fit for purpose?

The Response to the Financial Crisis

1. The Walker Review of corporate governance in UK banks and other financial industry entities (2009)
2. Various recommendations for the boards of banks and other financial institutions – more challenge, more diversity, stronger governance structures e.g risk committees
3. Recommended a stewardship code for institutional investors
4. The Kay Review of UK Equity Markets and Long-Term Decision making (2012) addressed measures to promote long-term thinking

After the Financial Crisis

1. 'Comply or explain' survived but better quality explanations required
2. The governance structures of companies were strengthened significantly. More focus on the governance of risks, values and culture
3. Audit Firm Governance Code published 2010
4. The UK Stewardship Code was published and brought clear definition to the responsibilities of institutional investors

The UK Stewardship Code (2012)

1. Over 200 signatories, 7 Principles
2. Applied on a 'comply or explain' basis by asset owners and asset managers
3. Measures of effectiveness
 - 74% of asset managers have mandates from their clients that refer explicitly to stewardship
 - 90% of asset managers report to clients about stewardship
 - 18% of asset managers had obtained an independent opinion on both their voting and the engagement processes
4. But are investors meeting the spirit of the Code or just box-ticking?

The UK Stewardship Code's Principles

- Principle 1 – How we discharge our stewardship responsibilities
- Principle 2 – Our policy for managing conflicts of interests
- Principle 3 – How we monitor our investee companies
- Principle 4 – Our guidelines for escalating engagement
- Principle 5 – Our willingness to act collectively with other investors
- Principle 6 – Our policy on voting and voting disclosure
- Principle 7 – How we report on stewardship to our clients

How Standard Life Investments Approaches Governance & Stewardship

1. Governance & Stewardship Team set up in 1992.
Reports to Chief Investment Officer
2. Engages companies
3. Votes our clients' shares; voting records disclosed on website
4. Assists portfolio managers evaluate the corporate governance risks of companies
5. Provides client reports quarterly and publishes an Annual Review

Governance & Stewardship Team

Governance & Stewardship team

We have a dedicated team that focuses on developing and implementing best practice standards. Our team was established in 1992 and is regarded as one of the leading teams in the governance and stewardship arena.



Guy Jubb
Global Head of Governance & Stewardship



Alison Kennedy
Governance & Stewardship Director



Jonathan Cobb
Governance & Stewardship Director



Mike Everett
Governance & Stewardship Director



Douglas Wilson
Governance & Stewardship Manager



Joanna McNeill
Governance & Stewardship Manager



Nicola Robertson
Governance & Stewardship Process & Controls Manager



Claire Leighton
Governance & Stewardship On Desk Support

Significant senior resource allocated to Governance & Stewardship activities

Governance and Stewardship : Our Mission

Mission :

- “To act in the best interests of our clients and to seek to protect and enhance the value of their investments in accordance with our Governance and Stewardship principles and policy guidelines”.

Roles :

- To exercise the rights attached to the ownership of securities by our clients.
- To mitigate the risks to client portfolios by a process of analysis and engagement with companies on matters of Governance and Stewardship.
- To exercise influence in matters of public policy and regulation where these relate to Governance and Stewardship and the interests of our clients.
- To be accountable to our clients for our activities undertaken on their behalves.

Client focus is key to our mission and role

Governance & Stewardship: our role

1. Contributing governance insights to the investment process

- Analysis of issues including governance change
- Helping fund managers take account of governance risk
- Focused engagement programme

2. Exercising investor responsibilities

- Oversight of voting globally
- Principles & Policy Guidelines
- ISS proxy voting platform

3. Our broader role

- Encouraging best practice
- Taking part in membership organisations
- Contributing to the policy debate

Standard Life Investments: Principles & Policy Guidelines

1. Approved by the Board of Standard Life Investments.
Reviewed annually
2. Cover board balance and composition, audit, remuneration, values and business practices
3. Applied globally with flexibility and professional care taking into account local custom and practice
4. Regional voting guidelines

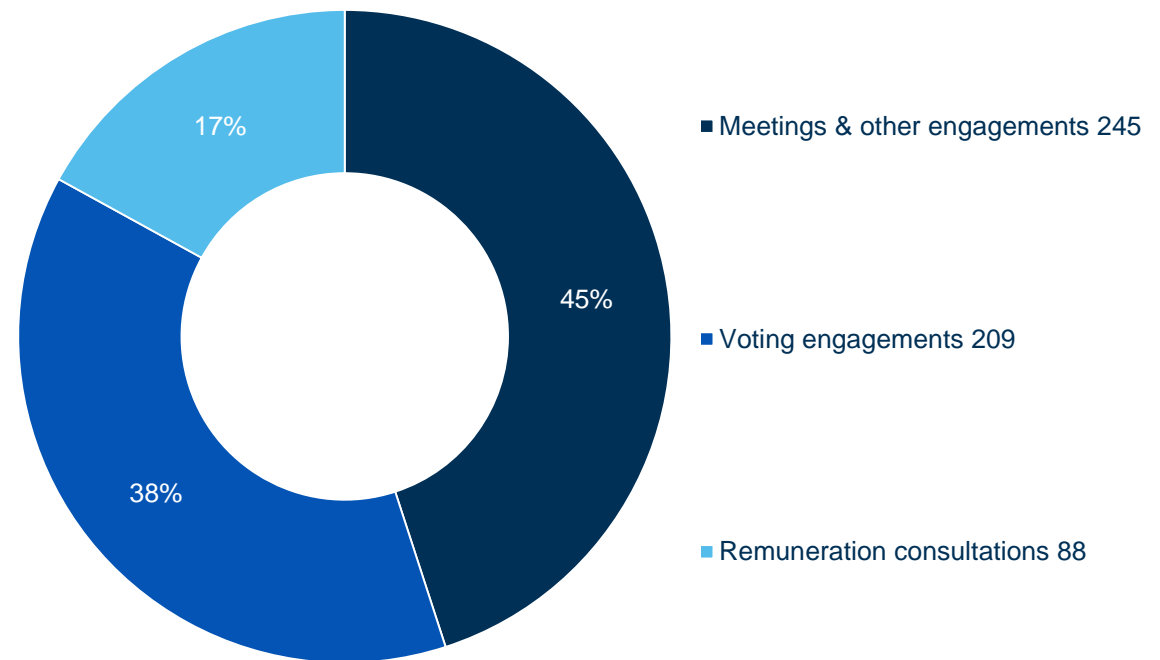
Standard Life Investments: Engaging with Companies

1. Global engagement planning platform: 2015
2. Places more emphasis than before on engaging with non-UK companies
3. Selected on basis of size of investment (% of equity held) and money-weighted governance risk
4. Reactive engagement when governance concerns arise
5. Enables a two-way dialogue and a mutual understanding

Engagement Summary 2014

- Standard Life Investments approach to engagement
 - To hold companies to account
 - To promote high standards and best practice
- Topics covered include
 - Board Evaluation
 - Nominations process
 - Remuneration
 - Accounting and Auditing
 - Performance

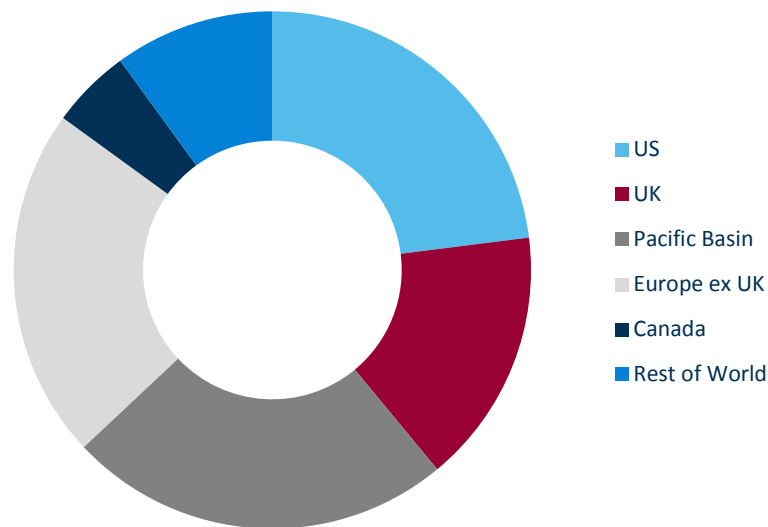
Engagement Summary 2014



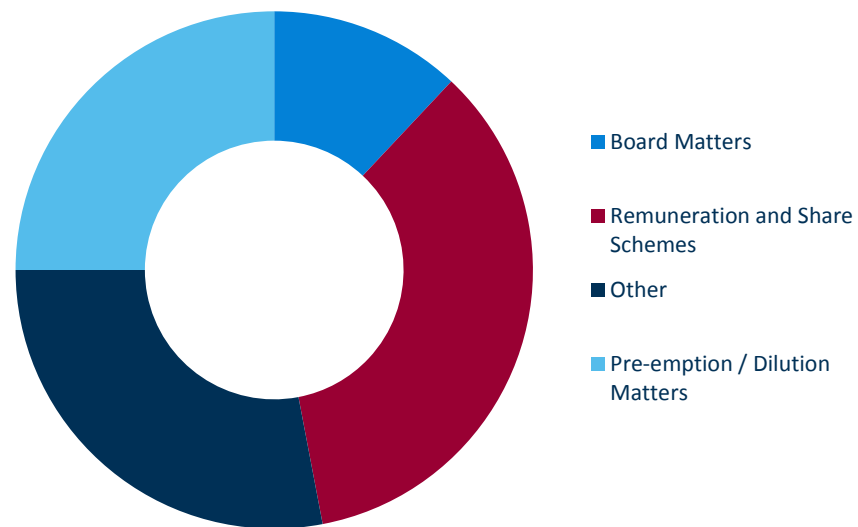
Voting Summary 2014

Shareholder meetings at which our clients' shares were voted	1633
Number of resolutions voted	20,438
Shareholder meetings at which our clients' shares were voted against management recommendations on one or more resolution	356
Number of resolutions voted against management recommendations	907
Shareholder meetings at which our clients' shares abstained on one or more resolution	167
Number of resolutions abstained	295

Geographical Breakdown of Votes Against Management Recommendations *

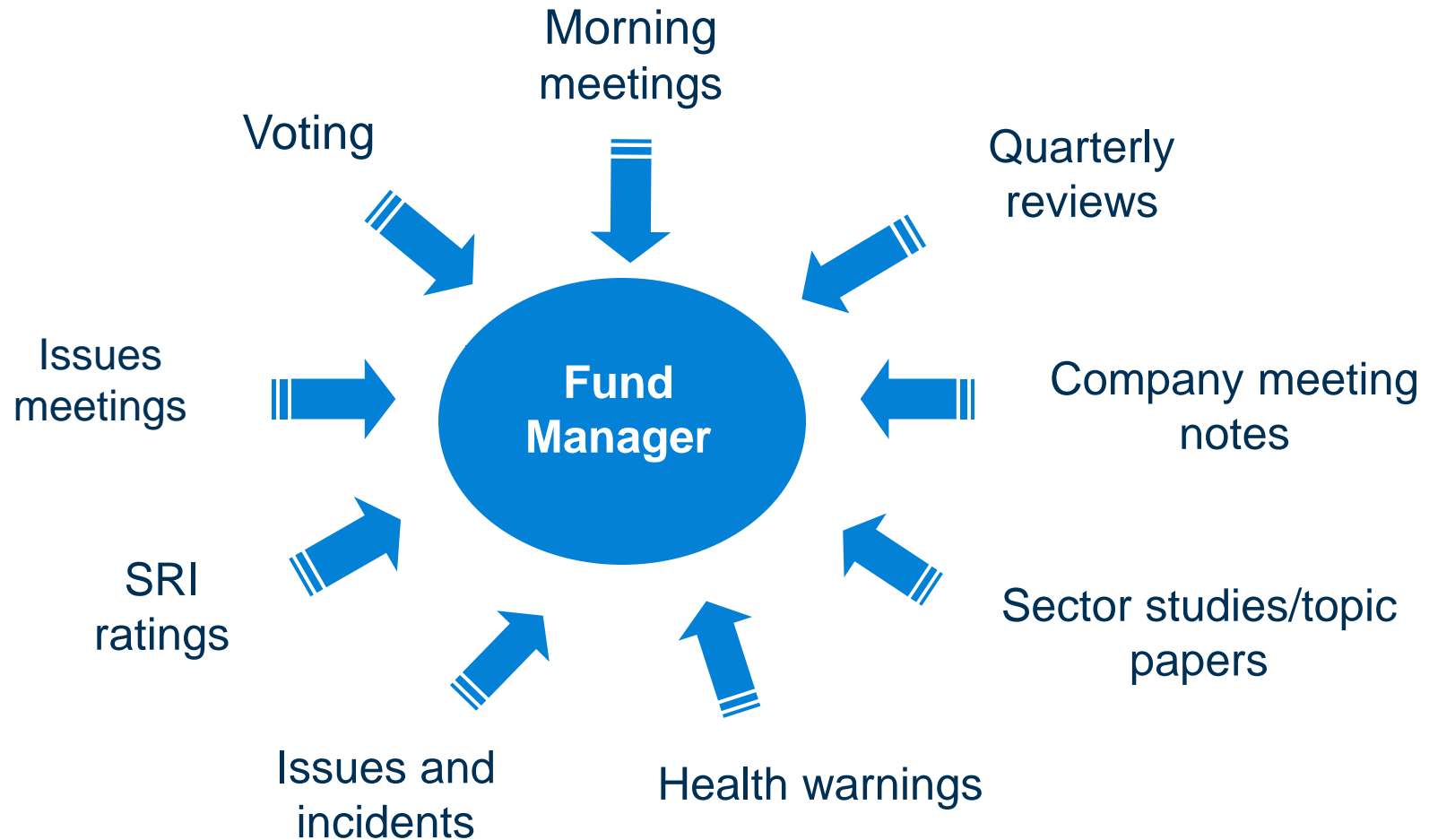


Reasons for Votes Against Management Recommendations *



* Excluding Japan
Source: Standard Life Investments

Contributing to Our Investment Process



The Non-UK Landscape: Europe

1. Member states have own legal systems
2. European Commission encouraging greater investor engagement but progress slow
3. Shareholder Rights Directive – a missed opportunity?
4. Greater transparency by asset managers
5. One vote one share principle not fully accepted

The Non-UK Landscape: USA

1. Sarbanes Oxley Act - rules not principles
2. The pivotal role of the SEC. Politics plays an influential role – tends to be pro-business
3. Shareholder activism well-established and often supported by asset managers
4. Primary focus on AGMs and voting. Attitudes to corporate - shareholder engagement gradually becoming more enlightened
5. Collective engagement by asset managers infrequent: legal challenges

The Non-UK Landscape: Asia

1. Very wide-range of practices
2. Family and state owned enterprises feature strongly
3. Local stock exchanges changes gradually imposing higher standards of corporate governance
4. Informative comparative research undertaken by the Asian Corporate Governance Association ('ACGA')

The Future Responsibilities of Asset Managers: the Drivers for Change

1. Information technology & digital communications: increasing asset manager connectivity globally
2. Increased scrutiny from securities regulators on how major asset managers behave and fulfil their responsibilities
3. Changing attitudes and expectations of society, especially in Europe

Conclusion: Good Asset Managers

- Good asset managers play a vital role in ensuring companies have high standards of corporate governance
- Good asset managers take corporate governance risks into account when evaluating investment risk
- Good asset managers are good stewards and focus on the best interests of their clients
- Good asset managers are ‘best in class’ asset managers!

The information shown relates to the past. Past performance is not a guide to the future. The value of investment can go down as well as up.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Standard Life**. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner Standard Life** or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Past performance is no guarantee of future results. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

**Standard Life means the relevant member of the Standard Life group, being Standard Life plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time."

Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL.

Standard Life Investments Limited is authorised and regulated by the Financial Conduct Authority.

Calls may be monitored and/or recorded to protect both you and us and help with our training.

www.standardlifeinvestments.com

© 2015 Standard Life, images reproduced under licence