



Sustainable and Responsible Investment & Corporate Governance at Threadneedle

Principles and procedures



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Introduction

This document sets out Threadneedle's Governance and Responsible Investment Principles and Procedures, incorporating our commitments to Corporate Governance and Sustainable and Responsible Investment (SRI). Throughout this document 'Threadneedle' refers to Threadneedle Asset Management Limited and Threadneedle International Limited. This document is reviewed and updated annually.

We are active investors committed to maximising our investment returns through the pursuit of good governance and responsible investment practices. Threadneedle's approach to SRI encompasses environmental, social and governance (ESG) integration, engagement and specific product capabilities. We are increasingly catering our product capabilities to investors with specific SRI requirements, but our focus continues to be on integrating these aspects into the mainstream investment process, benefiting all funds and clients.

SRI & Corporate Governance Philosophy

We believe that well governed companies are better positioned to outperform over time. The analysis of governance, social, ethical and environmental (ESG) factors is therefore incorporated into the stock selection process to identify associated risks and opportunities. Management of material ESG factors is integral to our investment decision-making process with the aim of positively impacting returns. We believe in our responsibility as active owners and we continue to respond to client requests based on ethical values.

We believe that we have a fiduciary duty to promote understanding of the risks and opportunities associated with material SRI and corporate governance issues. By material SRI and corporate governance issues we mean those which may have a direct or indirect impact on a company's financial performance in both the short and long run. We continuously work to quantify and measure as well as attribute the real financial returns or even the environmental and social returns, and communicate our work to fund managers and analysts across investment desks.

We believe in active ownership and practice global proxy voting according to our corporate governance principles. We also work closely with the directors and management teams of our invested companies to promote best practice. While we support management where possible, we intervene and press for change where appropriate, either individually or through collaborative initiatives. We continuously monitor our investments to establish accountability to corporate environmental, social and governance (ESG) promises.

We have based our policies and procedures on several industry guideline documents (see below). We also participate in current debates around transparency and promoting responsible investment within the industry. We continuously monitor developments in terms of disclosure and engagement and we strive to follow best practice in terms of reporting. We will disclose our procedures as we see in the best interest of our clients.

Topic	Underlying policy codes and guidelines	Members of	Signatories to
Environmental, Social and Governance (ESG)	Founding Signatories, United Nations Principles for Responsible Investment (UNPRI) (2006)	United Kingdom Sustainable Finance and Investment Association (UKSIF)	Carbon disclosure project
	Institutional Shareholder Committee Code on Responsibilities of Institutional Investors (Nov 2009)	European Social Investment Forum (EUROSIF)	Extractive Industries Transparency Initiative
	The Walker Review 2009		
	ABI Guidelines on Responsible Investment Disclosure (Jan 2007)		
	Global Compact Principles		
Corporate governance only	UK Combined Code	Association of British Insurers (Investment committee member)	
	OECD Principles of Corporate Governance (1999)		
	Financial Services Authority (FSA) code of practice on remuneration policies (2009)		

Process

SRI is embedded in our investment approach. We do not separate traditional 'corporate governance' and 'sustainable and responsible investment' analysis per se. The management of ESG issues is a critical component of long-term value creation and we assess all of these elements in our analysis. Our investment process incorporates detailed analysis of a wide variety of ESG metrics within our fundamental research. The process also involves company meetings, engagement initiatives and proxy voting, and all activities are discussed with fund managers and analysts. We hold internal SRI views of companies based on their conformity to our principles and monitor companies' performance against year-on-year structural change.

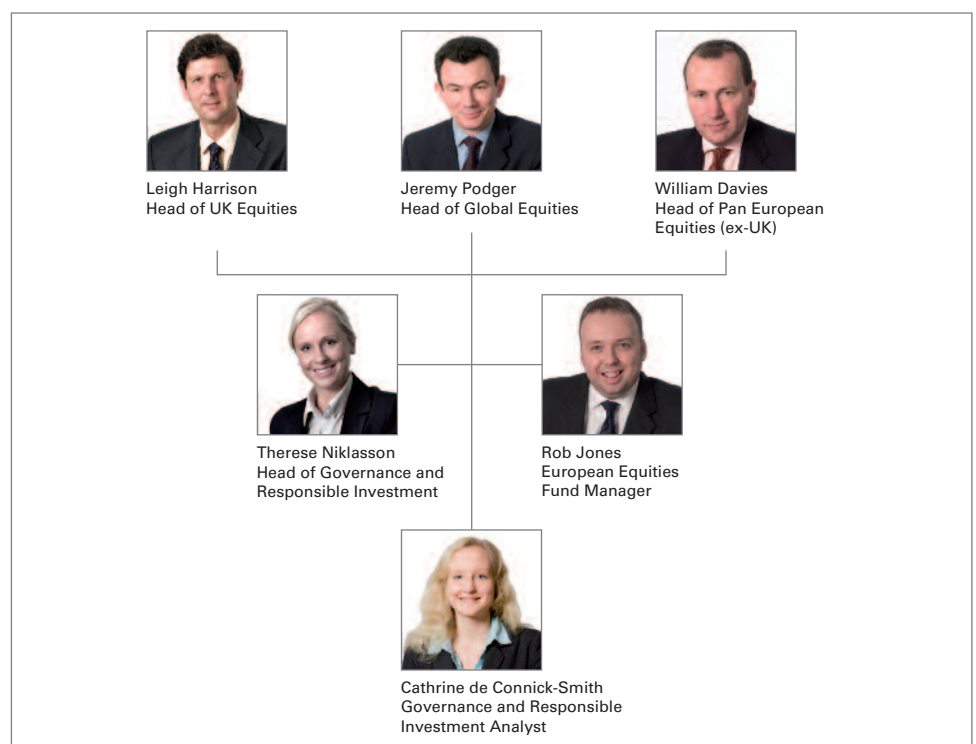
Team

The Governance and Responsible Investment Team holds overall responsibility for monitoring company compliance with our principles and is drawn from our core team of analysts and fund managers. The team is located in the middle of the main Threadneedle investment floor. The team therefore has the advantage of constantly being updated and aware of the themes, ideas and companies under discussion. This allows the analysts to focus their time and research on relevant areas and issues. Our dedicated analysis is thus fully integrated within our mainstream investment process, ensuring a rounded view and a consistent message.

Therese Niklasson, Head of Governance and Responsible Investment, is responsible for research and policy development, the Governance and SRI process, voting and engagement programmes. Therese reports directly to Leigh Harrison, Head of UK Equities.

In 2008 we recruited an additional fully dedicated Governance and Responsible Investment analyst, Cathrine de Connick-Smith. Cathrine holds an MSc in Water Science Policy and Management and works alongside Therese and relevant fund managers on a range of ESG issues.

The Governance and Responsible Investment team is further supported by a senior member of the Pan European Investment team: Rob Jones, Pan European Equity fund manager. Finally, Jeremy Podger, Head of Global Equities and SRI fund manager, and William Davies, Head of European Equities, are actively involved in our Governance and SRI developments.



Sustainable and Responsible Investment Principles and Procedures

As a signatory to the UN Principles for Responsible Investment (PRI) we take these principles as our guide and strive to ensure that we act on each of the agenda items. We are active members of the United Kingdom Sustainable Investments and Finance Association (UKSIF), European Social Investment Forum (EUROSIF), and the Association of British Insurers (ABI). We are signatories to the EITI (Extractives Industries Transparency Initiative) and the Carbon Disclosure Project (CDP). Through these organisations, we participate in SRI community discussions and seminars to promote awareness and acceptance of the principles of responsible investment.

As active members of the UN PRI we believe in the value of engaging with companies on material ESG issues. We take an in-house view through our research process and we then engage with companies either individually or collaboratively. We use the above organisations, and particularly the UN PRI Clearinghouse, as a route for collaborative engagement with other relevant organisations. Progress and outcomes of the different engagement processes' are communicated both internally and externally. We regularly speak internally to fund managers and aim to attribute our findings to material financial consequences. We report back to clients on our initiatives as well as increasingly responding to greater disclosure requests from the diverse range of stakeholders.

SRI research and analysis

Corporate Governance analysis has been a core part of the team's responsibilities for over a decade, and our specific market policies are described below. Environmental and social analysis continues to be a growing area of importance for the team, as we can increasingly quantify material impacts of risks and opportunities in this space. Environmental analysis in particular is a key research area for the team and we focus on three main themes when evaluating environmental risks and opportunities for companies. These are environmental risk, sustainability and eco-management. Each of these areas covers a large number of issues ranging from polluting emissions and resource use to environmental audit and management systems. This rigorous process is aimed at targeting any material issue across the environmental spectrum regardless of industry and markets.

We follow a best-in-class approach to our ESG analysis. We take an in-house view of the key industry issues in terms of risks and opportunities, in collaboration with our research providers and in-house analysts and fund managers. We subsequently analyse performance of the individual company on those key issues, using the research channels described below. We also take into account adherence to the United Nations Global Compact principles. The ten principles address the following areas: human rights, labour standards, the environment and anti-corruption. We subsequently benchmark against the best performer in the peer group.

We monitor ESG issues through a wide range of channels and continue to build on the strong relationship between the SRI team, external and internal analysts and our fund managers. In addition to the team members' own academic and professional backgrounds in environmental and social areas, we regularly meet with dedicated SRI brokers from leading investment banks. We also draw on analysis from the highest quality specialists including extra-financial service providers, NGOs and academic research institutions. Our advisers are chosen for their focus on the financial opportunities and risks presented by companies' ESG profiles that can feed directly into our investment process. These relationships aim to provide the analysts with SRI stock picks and deepen the in-house analysis of a particular stock with regard to ESG considerations. Furthermore, we regularly meet with companies on these issues as valuable inputs to the research.

With regard to company information on ESG issues, we take as our basis the Association of British Insurers Guidelines on Responsible Investment Disclosure. Our principles therefore require that:

The Board takes regular account of the significance of ESG matters to the business of the company.

- The Board has identified and assessed the significant risks to the company's short and long-term value arising from ESG matters, as well as the opportunities to enhance value that may arise from an appropriate response.
- The Board has received adequate information to make this assessment and takes account of ESG matters in the training of directors.
- The Board ensures that the company has in place effective systems for managing significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

With regard to policies, procedures and verification, company information should:

- Include information on ESG-related risks and opportunities that may significantly affect the company's short and long-term value, and how they might impact on the business.
- Describe the company's policies and procedures for managing risks to short and long-term value arising from ESG matters. If the annual report and accounts states that the company has no such policies and procedures, the Board should provide reasons for their absence.
- Include information, where appropriate using Key Performance Indicators (KPIs), about the extent to which the company has complied with its policies and procedures for managing material risks arising from ESG matters and about the role of the Board in providing oversight.
- Where performance falls short of the objectives, describe the measures the Board has taken to put it back on track.
- Describe the procedures for verification of ESG disclosures. The verification procedure should be such as to achieve a reasonable level of credibility.

These guidelines are aimed at disclosure within the company's annual report and accounts. However in using these guidelines as a basis for analysis we do not require them to be in the annual report, only that they be publicly addressed.

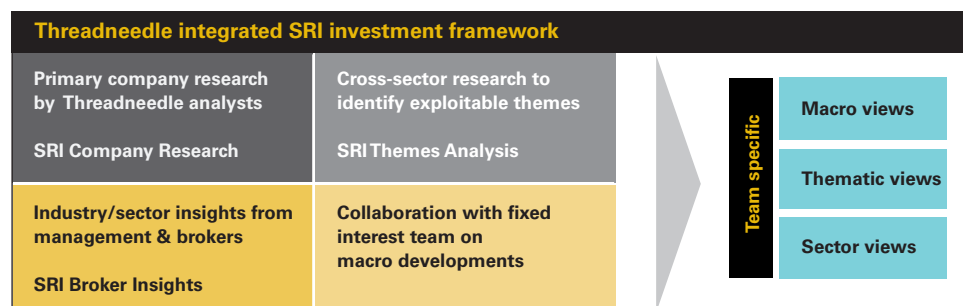
SRI integration

The Governance and Responsible Investment team aim to fully integrate ESG issues into the main investment process where it is considered material to a stock price. In recent years, many channels and processes have been tried and developed to reach this goal.

ESG research is included in key stages of the investment process, as part of the analysis of long-term, quality investments. We believe this will enable fund managers to make better informed investment decisions.

ESG research is incorporated into morning meetings, themes meetings, stock reviews as well as weekly and ad-hoc updates. Where appropriate, relevant fund managers are present at ESG-related meetings, enhancing their understanding and appreciation of these risks and opportunities. This strategy has resulted in substantial dialogue between the SRI analysts and fund managers. The analysts are now often being approached by fund managers or sector analysts for information or an update on stocks they are covering. We believe that this development illustrates that SRI is increasingly becoming mainstream, as traditional fund managers and analysts are increasingly involved in analysis of ESG risks and opportunities.

The model below aims to demonstrate how ESG issues are integrated into the wider investment framework in an idea generation model. The SRI Team engages in research at company, sector and thematic levels. Individual teams then draw on this analysis to form their own views.



Dedicated SRI product capabilities

As the market for dedicated SRI products has developed in Europe over the past decade we have also seen a significant increase in interest and questions around what we can offer in terms of products. Drawing on our in-house expertise within the SRI team, the product development team and investment specialists, we are able to offer clients a range of opportunities. Our relationship with external rating agencies and their services means that we can create a wide range of different types of screened products based on any social, environmental and governance criteria. The screens may range from highly detailed ones to simple norm-based filters. Acceptance levels can then be set at appropriate levels in accordance with clients' needs.

We are very keen on developing new types of products together with our clients and we dedicate resource and time to monitoring and analysing the growing SRI market across Europe. It is clear that any two given European markets may not prefer the same ESG strategy. We are therefore very keen to hear what our clients need but also to suggest products based on our internal expertise and knowledge.

We currently manage both Broad and Core SRI Assets as defined by Eurosif. Broad SRI, according to Eurosif, is composed of the following strategies;

- Simple screening, including norm based screening (up to two negative criteria)
- Engagement
- Integration

This is followed by Core SRI which is composed of the following strategies;

- Ethical exclusions (more than two negative criteria applied)
- Positive screening, including Best-in-Class and SRI Theme Funds
- Combination of ethical exclusion and positive screening

Our focus remains on identifying innovative, new-thinking types of SRI products across asset classes as well as providing expertise in applying broad ethical value screens or integration approaches to portfolios. We continue to have discussions with both existing and potential clients around their needs and interests.

Corporate governance principles and procedures

Threadneedle operates a global voting policy, with respect to individual market practices. We have brought our UK Principles fully into line with the Combined Code. We consider this as a guide to best practice across markets, while taking into account individual market circumstances. The adoption of the Combined Code by investors creates a powerful and consistent approach in our dialogue with companies and it also provides consistency for clients wishing to vote in line with the Combined Code. In making this decision we have been encouraged by our investee companies' response to the Combined Code and the quality and depth of explanation and dialogue it has stimulated.

On a global level we take into account local best practice and cultural influences. We will occasionally support processes which we may not necessarily consider good corporate governance but may be common in the region. In those instances, if the case is significant enough, we strive to communicate this to the company, either through collaborative channels or by ourselves.

The following sections outline in more detail how we approach various corporate governance issues. These principles apply across the markets we vote in, but we have also laid out specific exceptions or practices we support in individual markets. We look at the UK and Europe, North America and Asia-Pacific.

The Board

Chairman and Chief Executive

There should be a clear division of oversight and management responsibilities at the head of the company with the roles of Chairman and CEO split and clearly defined. The chairman's role is to ensure the effective functioning of the board whilst the CEO focuses on running the company. Given the need for separation of power and for the Chairman to be objective at all times, we do not consider that a CEO should go on to become Chairman of the same board. To fulfil their oversight function, chairmen should be non-executives themselves and also free from close links with the executives. Although we accept that the increasing commitments required of chairmen may prevent them from being considered truly independent, it is our opinion that they should not be a former executive and should be independent on appointment.

Board Balance and Composition

Various industry, company and individual factors will determine the correct size of the board. Whatever its size the board should be comprised of a balance of executive, non-executive and independent non-executive directors (NEDs) to ensure no faction wields undue influence. In order to ensure the correct checks and balances we consider that the majority of the board, excluding the chairman, should be independent non-executive directors.

All non-executives should be of sufficient calibre and have adequate time and resource to fully contribute to board deliberations and 'ask the right questions' of management. Recruitment and succession processes should ensure a mix of skills and expertise from wider fields that may not be represented on the board, but we caution that current external commitments must be monitored.

As more burdens are placed on board members it is increasingly critical that time commitments are regularly reviewed. Although a 'portfolio' approach to directorships may bring benefits to the various boards, a crisis on one or more boards will dramatically restrict the ability to commit adequate time across responsibilities. We assess commitments with due regard to non-corporate commitments and individual directors' ability to attend board, committee and investor meetings in a systemic crisis.

We view meetings of both independent and non-independent NEDs without the executives present to be critical. These should be regular, disclosed and led by the chairman or the senior non-executive when necessary.

Independence

Certain factors can constrain, or appear to constrain, a director's ability to apply independent and objective oversight to board deliberations. We believe a majority of the directors on the board, excluding the chairman, should be free of any such links to fellow board members, the company, or related entities. We do not take the existence of such links to imply anything about the quality of individual judgment but will seek a balance of independent and non-independent views on the board as a whole. We follow the revised Combined Code definition of factors that will affect independence. Therefore an independent director should not:

- have been an employee of the company or group within the last five years,
- have, or have had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company,
- have received or receive additional remuneration from the company apart from a director's fee, participate in the company's share option or a performance-related pay scheme, or be a ■ have close family ties with any of the company's advisers, directors or senior employees,
- hold cross-directorships or significant links with other directors through involvement in other companies or bodies,
- represent a significant shareholder,
- have served on the board for more than nine years from the date of their first election.

In addition, it is our opinion that, in order for a director to be considered wholly independent on appointment, they must have been selected following a formal, independent and transparent process. Search and selection criteria for recruitment should be clearly identified in advance and ways in which the candidate fulfils them should be disclosed. Sufficient biographical information must be provided to allow us to form a view on their suitability.

The Nomination Committee

We agree with the Combined Code that "there should be a formal, rigorous and transparent procedure" for director appointments and that this should be the role of a nomination committee. However, the role of the nomination committee is expanding well beyond the selection of a director and encompasses their adequate training during tenure, regular appraisal of their performance and formal succession planning towards their eventual departure. To do this objectively, we consider that the majority of the nomination committee should be independent and should comprise at least three non-executive directors.

Senior Non-Executive Director

We view the role and function of an independent senior non-executive director (SNED) to be increasingly important to the operation of the board. The SNED has a key communication role and should be available to meet shareholders and other NEDs, when contact through the normal channels is not appropriate.

Remuneration

Remuneration Committee

In keeping with the Combined Code principle that "there should be a formal and transparent procedure for developing policy", as well as the Financial Services Authority (FSA) code of practice on remuneration policies (2009), we consider remuneration packages should be formulated and administered by a majority independent remuneration committee comprising no fewer than three non-executive directors. The Chairman should not chair the remuneration committee. The committee should meet regularly and engage external advisors but we caution against the 'ratcheting up' of pay levels that may be a product of over-reliance on external advice. We welcome the increasing levels of shareholder consultation in policy and new incentive scheme development.

Remuneration

We take into account the FSA code of practice on remuneration policies when analysing remuneration practices as well as local market practices.

There should be a close alignment of the incentives of shareholders and management concerning long-term creation of value by the company. Our focus remains on the provision of strong reward structures to attract the highest calibre personnel and rewarding management for outperformance. In finding a balance between fixed and variable elements we consider a significant portion of the total package should be dependent upon superior personal and corporate performance. We are concerned that any motivational impact is lost if rewards are paid in the absence of outperformance and agree with the Combined Code that "a company should avoid paying more than is necessary for this purpose."

We pay increasing attention to whether remuneration for employees in the company's risk management and compliance functions is determined independently of other business areas. In certain organisations, such as financial institutions, we would encourage an independent risk committee to oversee the capital requirements and the link between performance metrics used for remuneration and risk taking.

We consider it important that the treatment of rewards and incentives across the company is consistent and that the company should therefore aim to avoid any disconnection between executives' and the wider group's pay. In addition to the direct costs of the remuneration package, the company should pay due regard to indirect reputational costs, such as those associated with the public's perception of excessive rewards. It is also important to avoid the erosion of value inherent in misaligned or short-termist incentive structures.

Remuneration structure should be clear and transparent to allow proper evaluation of the company's policy and practice by all stakeholders. As remuneration packages increase in complexity the burden on stakeholders to assess their value also increases but, more importantly, their motivational impact is eroded as objectives and associated rewards lose clarity.

Long-term schemes should be tested over at least three years against multiple performance criteria, including an absolute measure appropriate to the company's operations, and an evaluation of the company against its peers. Furthermore, in accordance with the FSA code of remuneration, we suggest that performance metrics should be risk-adjusted, taking into account capital and liquidity requirements when establishing bonus pools. In evaluating the incentives available to executives, we focus on the proportions vesting for average performance or readily achievable growth and the level of awards for achieving more stretching targets. There should be no incentive reward for less than average performance (forecast growth or median performance). We are quite strict on enforcing disclosure of performance conditions for long term incentive schemes. We believe that management interest should be aligned with shareholders and require disclosure to this effect.

In order to further align the interests of management with shareholders, we believe directors should be seeking to obtain a significant shareholding in the company over time. We support a minimum required holding within the incentive structure that is at least equivalent to annual salary and the accrual of dividends for pre-vested share awards.

Threadneedle will not support rolling contracts that include severance entitlements in excess of 12 months' salary. We will consider the use of extended terms in exceptional circumstances such as recruitment. In assessing company policy on severance entitlements and the application of mitigation, we will closely monitor actual compensation paid to ensure it does not deviate from stated policy.

Pension arrangements form an increasingly critical element of remuneration. We will closely monitor any significant differential arrangements as an integral analysis of both remuneration and severance.

We use guideline figures for stock option schemes of a maximum 5% dilution potential for mature companies and 10% maximum dilution potential for growth companies.

Internal Controls and Audit

The significant corporate failures in recent years have caused many to refocus attention on the effectiveness of internal controls, the independence of the external audit process and the effectiveness of the audit committee.

Audit Committee

We consider the audit committee to be critical to the protection of long-term shareholder value. The wholly independent committee should include at least three members. Although all NED duties should be accompanied by adequate training, it is essential that beyond this at least one member of the Audit Committee should hold significant relevant financial experience and skills. We will assess the ways in which such a director possesses the financial acumen, skills and experience necessary to 'ask the right questions' of the management. The committee's terms of reference should be available to all stakeholders. We will closely monitor the frequency and level of attendance at all committee meetings but, again, this is particularly vital for the Audit Committee.

External Auditor Independence

A key role of the audit committee is to ensure the independence and objectivity of the external audit process. The incentives faced by the external auditor should not influence their objectivity. We closely monitor the level of fees earned by the auditor for non-audit work. The committee should fully disclose its considerations in awarding non-audit work to the auditors and review the impact of such contracts on the external auditors' independence. The audit committee must have the explicit right to seek independent advice.

Shareholder Protection

We believe that shareholders should be treated equitably. In particular, we believe in the principle of 'one share one vote' and do not support share structures that provide different voting rights on different share classes. We will not support any mechanisms that seek to entrench incumbent management and reduce shareholders' ability to replace failing boards. Similarly, we believe that no entity should have the right to appoint directors to the board and that all directors should submit themselves to regular shareholder approval. Furthermore, we will routinely oppose "poison pill" resolutions that propose the issuance of shares in the event of a takeover.

Dilution is a critical shareholder issue. We believe existing shareholders should be given the right of first refusal on issuances of more than 5% issued share capital in any one year. We will apply careful consideration to requests to move beyond these limits and will consider each case on its merits.

We believe that proxy voting shareholders should have equal access to information as shareholders that attend in person. We therefore oppose any resolutions stating "other business" as we do not have adequate information on what could be discussed under such provisions.

Individual Market Practices

Asia-Pacific

A general issue in this region is a lack of independence of non-executive directors and independent board oversight. We monitor this issue but are often more lenient in this region than others. We strive to enforce complete audit committee independence.

Japan

- We operate a tailored policy for the Japanese market which largely follows best corporate governance principles but supports cultural practices such as retirement bonuses.

Hong Kong and China

- Dilution: We will support a very common resolution including issuance of shares of 20% without pre-emptive rights, buy-back of 10% and re-issuance of 10%. Requests for issuances above 20% will not be supported.

South Korea

- Dilution: We will support issuance of shares of up to 50% of issued share capital without pre-emptive rights as this is local market practice. This authority is not usually invoked, and the companies tend to provide more details separately, should there be a significant rights issue.

Taiwan

- Split voting: A key issue which essentially does not allow any block of shares held with a custodian, and consequently sub-custodian, to be voted differently. This is difficult to control from our end, because sub-custodians usually hold shares from more than one asset management house. Furthermore, we do not have direct contact with sub-custodians. Our back office is working on a solution to this problem.

North America

North American corporate governance is much more prescriptive than other markets, due to the Sarbanes-Oxley Act. Yet companies are not required to provide an advisory vote on remuneration and for some companies it is not possible to vote against directors, only “withhold” (essentially abstain) votes.

Shareholder proposals are common in North America as there are more lenient requirements than in other markets – shareholders need to own 1% of the company (or \$2000 worth of shares) for one year.

Threadneedle does not routinely support shareholder resolutions. We look at them on a case by case basis but tend to support management. We will, however, support resolutions to provide an advisory vote on remuneration. We believe that such votes, common in other markets, such as the UK, encourage transparency and accountability to good incentive practices. To this effect, we do not tend to oppose compensation committee members, except in extreme cases where we will vote against the compensation committee chairman.

Europe and the UK

UK

- We pay significant attention to the remuneration report for UK meetings. We follow the combined code and work under the comply-or-explain approach.

France

- A difficult market for foreign shareholders – often a lack of independent boards, and large family holdings
- Severance pay: We vote against any severance pay packages amounting to more than two years of base salary
- Re-purchase: We support a common resolution to allow a 10% re-purchase of issued shares
- Dilution: We tend to adhere to limits of 50% issuance with pre-emptive rights and 20% issuance without pre-emptive rights

Germany

- Very different corporate governance to the Anglo-American structure
- Look for maximum board independence of 50%

Italy

- Audit committee elections: We will usually support the candidates put forward by the minority shareholders

Engagement

Shareholder Activism

Threadneedle does not consider itself to be a shareholder activist but rather an active shareholder. We believe that this distinction is important. As an active shareholder, we strive to engage with companies that we consider could benefit from having a better standard of ESG management.

Occasionally, we will meet other more activist shareholders in dialogue over contentious issues and then take an internal view and start an engagement process if necessary. Our team researches potential investment cases linked to ESG issues but we do not invest with the aim of pressing for changes to ESG practices.

Discharging our Responsibilities

Threadneedle's Corporate Governance and SRI principles are applied globally across our portfolios:

- Our UK Corporate Governance principles are based on the recommendations of the New Combined Code incorporating the Higgs Report and Smith Guidance as well as the Walker Review of financial institutions
- Our Global Corporate Governance programme follows the various market codes, benchmarked on the OECD Principles
- Our SRI principles have been developed internally and draw from international best practice, particularly the UN Principles for Responsible Investment

We vote on all Threadneedle funds in 42 countries globally. We also vote on segregated mandates where the client allows us to do so. We vote the majority of our meetings in the UK, Europe, Japan and North America, and our global programme continues to develop. Like all investors we face legal and economic impediments to voting in a number of markets around the world, and we remain focused on removing or circumventing these barriers. In share blocking markets for example, we may vote only on a proportion of our shares for some funds. This will be as large a proportion as possible within the limits needed to maintain flexibility to trade. We remain sensitive to diverse corporate cultures and regulatory environments as we continue to develop our global programme.

We will not translate our corporate governance principles into an automatic voting 'template'. Rather, we follow the principle of "comply or explain" and apply our principles with full consideration of the company's circumstances. Where the management of the company takes a course of action that deviates from our principles without adequate justification, we will adjust our view of the company and they will lose a degree of our support. Frequently the issue will be something we can vote on at a general meeting but an opposing vote or abstention at such a meeting are just two of the wide array of engagement options we use. The Governance and Responsible Investment team will actively explore our concerns, objectives and options with our analysts and fund managers against the objective of securing long-term value creation.

Our SRI principles are applied across funds through the investment decision process and continuous dialogue with the companies we are invested in. Engagement activities in the environmental and social arena are often carried out in collaboration, facilitated by the UNPRI Clearinghouse and other organisations such as UKSIF and EUROSIF. In addition, we carry out engagement on ESG issues through individual meetings with heads of sustainability as well as executive management. Fund managers and analysts are informed of these engagement activities and results are recorded. The Governance and Responsible Investment team is presently more active with regards to equity holdings, but our process continues to develop into the fixed income arena.

Dialogue

We aim to exercise our influence in a positive and responsible manner, working in partnership with the companies we invest in. We are active investors, regularly meeting with management and board members to develop a two-way flow of information. Dialogue is a critical element of active fund management, providing us with a deeper understanding of the financial and extra-financial aspects of the business and focusing companies on our expectations. This is particularly true for analysis of Corporate Governance and SRI, where external performance metrics are often less well developed.

Our global fund managers aim to meet with all companies in which we invest at least twice a year, usually around the time that they report their results. We agree with the Combined Code principle that dialogue between ourselves and companies must be based on the “mutual understanding of objectives”. Members of our Governance and Responsible Investment team routinely attend these meetings to engage with directors on specific corporate governance and SRI issues.

In pursuing more active engagement, our corporate governance and SRI-focused meetings will typically be with the chairman, senior non-executive director or other board members with specific responsibilities. These directors will typically be chairmen of committees or environmental managers. Where companies engage with us, we aim to provide a full and considered response. Our Governance and Responsible Investment team, analysts and fund managers frequently discuss a range of issues on company request including strategy, succession, recruitment and proposed changes to remuneration.

In extreme cases, where dialogue and engagement fail within our prescribed time frame, it is possible that we will requisition an EGM. Similarly, we reserve our right to review our holding in the company at any time.

Monitoring

Our principles form the basis of our ESG view of stocks. Our view is based on each company's conformity to our principles. Monitoring is a key element of our engagement process. A key consideration is whether the company's management meets pre-defined goals and the degree to which the spirit rather than the letter of a proposal is met. The time frame we require will vary significantly depending upon the severity of the issue and the structural implications of change.

Reporting

Threadneedle regularly reports on our Corporate Governance and SRI activity. The level of reporting sought in this area is rapidly changing and we aim to provide clients with the information they need in this changing environment.

In terms of proxy voting, we comply with the Institutional Shareholder Committee Code on Responsibilities of Institutional Investors on voting disclosure. Our aim in reporting is to provide a quarterly assessment of the degree to which our investee companies have failed to conform to our principles without justification and how we have responded. Where we have been unwilling to support the management at General Meetings or supported management in apparent violation of our principles we will endeavour to provide full explanations. We will provide such reports to clients. However, it will not always be in the interest of long-term value creation to fully disclose sensitive company assessments or engagements to the public, and we exercise our discretion in this matter.

Our publicly available quarterly review includes detailed examples of ESG integration activities, investment implications and has expanded to provide a fuller account of our proxy voting activities. We provide a broad overview of how many resolutions we have voted, in which markets and an understanding of how many resolutions we have opposed. We review our level of disclosure in this area annually.

Conflicts of interest

Asset management is our only business; even so it is possible that situations may arise which would lead to concerns over possible conflicts of interest. In cases where the company in question is also a client, or potential client, we adhere to the following procedure:

- The Head of Governance and Responsible Investment will meet with the researcher for the stock and the relevant Equities Desk Head to discuss the situation and define our approach based on the specific circumstances
- The relevant Desk Head is responsible for our final engagement and voting decisions, and must ensure that our course of action will best serve the interests of our entire client base

Whilst the Relationship Manager for the client, or potential client, is informed of the decision, they are not involved in deciding our course of action.

Important Information

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