GAM Investments

RESPONSIBLE INVESTMENT

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RESPONSIBLE INVESTMENT POLICY

VISION STATEMENT

We are our clients' chosen investment partner entrusted as active stewards of their capital. Our clients trust us to safeguard their capital as if it were our own; it is our fiduciary duty to act in their best interests.

We believe incorporating material environmental, social and governance (ESG) factors into our investment decisions enhances our traditional investment framework including financial analysis, qualitative assessments, valuations, modelling and engagement with investee companies.

We are one of the world's leading independent, pure-play asset managers, specialising in active, high-conviction investing. Each of our investment strategies investment processes are idiosyncratic, aiming to best exploit the inefficiencies in their particular asset class and investment style. Many are unconstrained. We recognise that ESG factors are relevant to the long-term health and stability of capital markets and issuers of securities and that long-term sustainable returns are dependent on stable, well-functioning and well governed social, economic and environmental systems.

Material ESG factors are considered alongside economic, financial and operational factors of an investment case, and can and do influence our conviction. As such, material ESG factors are integrated into our investment processes.

ESG factors are a major driver of our understanding of risk and reward. By incorporating material ESG factors and recognising the importance of wider contextual factors, such as the stability and health of economic and environmental systems as well as the evolving values and expectations of the societies of which we are a part, we aim to build more robust portfolios for our clients.

General Policy Statement

At GAM, we are able to pursue and develop our business independently which we believe encourages a long-term investment perspective. We consider this long-term thinking a significant contributor to successful active investing. Each investment team of portfolio managers (PM) works in an environment that allows them to be nimble and to pursue their investment views in an unrestricted and often unconstrained way within a tightly risk controlled environment structure.

The policies, procedures and guidelines implemented by and under this policy are designed to ensure we satisfy our fiduciary obligations. To this end, and central to our active management and investment philosophy is our use of our formal rights, including proxy voting, shareholder resolutions and engagement with investee company management to positively influence activities or behaviour of the company.

This policy sets out the general framework which we, at GAM, have put in place when considering our fiduciary obligations, and is supplemented by various sub-policies including our bespoke, in-house proxy voting policy, engagement policy and corporate governance policy and guidelines.

ESG INTEGRATION

General Approach

At the core of our investment philosophy is the belief that our rigorous analytical approach will be rewarded with attractive investment returns. We recognise that different asset classes, portfolio strategies and investment universes require different lenses through which to analyse investment risk and opportunities, including those related to ESG factors.

As active investors, voting, engagement and promotion of best practices are core elements of our investment process. We actively vote at shareholder meetings and engage companies, regardless of whether we own equity or debt, in the belief that these actions help to establish standards, improve disclosure of material ESG data, and thereby improve investee companies' operational and financial performance.

It is our ambition to effectively and efficiently strengthen our decision making processes through enhanced stewardship activities, i.e. by integrating into our investment processes material factors such as the investee company's

- governance
- management and strategy
- incentive structures
- capital allocation
- corporate culture
- interaction with society
- ecological efficiency
- general alignment with long-term shareholder interests

We enable our portfolio managers, across all appropriate investment strategies to consider ESG factors as part of their investment process. It is our view that making the integration of material ESG factors an explicit and inherent element of the investment process significantly improves our ability to construct conviction led, long term portfolios.

Whilst we continue to work towards a ubiquitous, fully integrated framework for ESG analysis across our entire investment portfolio, we are cognisant that our general approach to stewardship is still developing. We believe that the systematic integration of ESG factors into our investment processes is important and have therefore begun introducing bespoke processes which enable us to monitor portfolios and investee companies for signs of ESG related risks and opportunities.

Integration

The increasing pace of changes in business and societal landscapes make the inclusion of ESG data an important element of fundamental analysis, providing a more complete value creation picture for corporate business models and management.

At GAM, due to our unconstrained and idiosyncratic approach, we do not follow one standard method to integrating ESG factors or to assessing the materiality of a particular issue. These decisions are left to the individual investment team's own assessment. There are diverse opinions on what constitutes a material factor, and materiality can also differ by industry, region, and how management of investee companies respond to these factors. Yet, PMs are consistent in their view that ESG factors are overall an important consideration when analysing companies and making capital allocation decisions.

Acknowledging that ESG factors are important, GAM established a stand-alone Governance and Responsible Investment (GRI) team at the beginning of 2018. This team is dedicated to providing investment teams with ESG data analysis and proxy voting services. The onus is on each investment team to develop their own process for integrating this ESG data and to engage the services of the GRI team.

The GRI team's duty is to ensure that we meet our obligations as a signatory to the United Nations Principles of Responsible Investment and UK Stewardship Code, amongst others, as well as being responsible for creating awareness and building consensus around systemic ESG related factors.

Materiality

The concept of materiality recognises that there are differences in the importance of information in making investment and voting decisions. It is therefore a fundamental principle in consideration of our investment process, and in particular our approach to integrating ESG information into our strategies.

Materiality, in the context of ESG, considers the likelihood of an ESG factor having a substantial impact on the future prospects, financial condition and operating performance of a company. PMs consider these factors, equally and alongside the traditional metrics of active investment, such as financial impact and risk, legal, regulatory and policy drivers, industry norms and competitive drivers, opportunities for innovation as well as other factors related to macroeconomics and valuation.

The materiality of ESG factors can differ by industry and region, and the response to those factors can differ by company. PMs therefore constantly evaluate not only the exposure to a particular ESG factor but also investee companies' management response to, and management of, the particular ESG factor.

Both the industry and company context is relevant when considering the materiality of an issue for a particular investment case. Industry level analysis provides investors with a more macro view of the ESG risks within an industry, that is, this type of analysis helps identify potential systemic risks and/or opportunities which companies in the industry face. Company specific analysis provides tangible examples of the actual or potential impact ESG factors have on company valuation or financial performance.

Corporate Governance

Corporate governance is the system by which companies are directed and controlled; it is a cornerstone of business, and in our view, companies which conduct their business in a responsible manner with good corporate governance, high standards of integrity and a sustainable business model deliver better long-term results to shareholders.

As active long-term investors we view our relationship with companies as symbiotic and work in partnership to deliver long-term sustainable value. We therefore carefully consider best practice guidance and the explanations from management, to ensure that bespoke arrangements provide the necessary checks, balances and protection for shareholders and other stakeholders. Our pragmatic approach to corporate governance ensures that we operate within the spirit of good governance and not just the letter. It is our view that companies should be given the freedom to find their own way to enhance their current and future financial and operational performance but that this freedom should not come at the expense of long-term value creation, good governance standards or cause environmental or social harm.

The Board of Directors and executive management team are paramount to the success of any business; we therefore put a high premium on the individuals who make up these bodies and an even higher premium on the culture, values and principles of the company. These are critical elements for long-term success and disseminated from the board down.

Further information on our Corporate Governance Policy is available on our GAM Investments website.

Engagement

We view engagement as key to fulfilling our duty to be a good steward for our clients' assets. Our engagement policy acknowledges that as active long-term investors, it is essential to maintain dialogue with the companies we invest in.

Engagement enables us to improve our understanding of investee companies, their governance structures, financial position, operational performance and future prospects. It is our view that this type of engagement activity, i.e. building a deeper understanding of each investee company, leads to better investment and voting decisions. Equally, engagement allows us to share our philosophy and approach to investment and corporate governance with companies to enhance their understanding of our objectives and expectations.

We have a range of approaches when engaging with companies. These will vary depending on the nature of the issue, the company and the market. Predominantly, our engagement approach focuses on developing one-to-one dialogue with targeted and investee companies. This active engagement is conducted by PMs on an on-going basis, with the support of the GRI team, in relation to ESG matters. Where appropriate, we will look to collaborate with other investment management firms when our interests are aligned and where our collective engagement best serves the interests of our clients. Collaboration can lead to better outcomes for companies and stakeholders, including importantly shareholders, as it sends a much clearer and focused message around major inefficiencies and issues.

PMs and analysts meet regularly with company management and, where necessary, the non-executive directors. Frequent topics of discussion include corporate strategy, business planning and delivery of objectives, capital structure, mergers, acquisitions and disposals, corporate governance including the governance of environmental and social factors and corporate responsibility.

More information can be found in our engagement policy on our GAM Investments website.

Proxy voting

Voting is a fundamental activity of active asset management. Voting decisions are made internally by PMs, in line with each investment teams overarching strategy, but in consideration of the GAM global proxy voting guidelines (the Guidelines).

We have four core proxy voting principles: Accountability, Stewardship, Independence, and Transparency. These principles guide our PMs in meeting their obligations and responsibilities to our clients with respect to voting and engagement. The Guidelines have been designed to be in alignment with these four principles.

Accountability - Boards should be accountable to shareholders, holding regular board elections, and providing sufficient information for them to be able to assess directors and board composition. Shareholders should have the ability to remove directors. Directors should respond to investors, and shareholders should have meaningful rights on structural provisions. Shareholders' voting rights should be proportional to their economic interest and each share should have one vote.

Stewardship - A company's governance, social, and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may impact significantly the company's long-term value creation. Issuers and investors should recognise constructive engagement as both a right and responsibility.

Independence - Boards should be sufficiently independent so as to ensure they are capable and motivated to effectively supervise management's performance and remuneration for the benefit of all shareholders. Boards should include an effective independent leadership position, for example separation of Board Chairman and CEO roles, and sufficiently independent committees that focus on key governance concerns such as audit, compensation, and the selection and evaluation of directors.

Transparency - Companies should provide sufficient and timely information that enables shareholders to understand key issues, make informed vote decisions, and effectively engage with companies on substantive matters that impact shareholders' long-term interests in the company.

Voting decisions are made by PMs in close collaboration with our GRI analysts. The relevant management company's executive board retains the ultimate responsibility for the vote decision. The GRI team is tasked with rigorously applying the Guidelines and making vote recommendations to PMs. This approach ensures that we vote in the best interests of our clients and with appropriate levels of oversight and control. The Guidelines are reviewed annually by the GRI team, PMs and also by our Responsible Investment Advisory Board (RIAB) members.

The proxy voting policy forms part of this overarching Policy and can be found on the GAM Investments website along with a record of our proxy voting activity.

RESOURCES

Sources

PMs utilise a number of sources of information including: our own bottom-up fundamental research, third party independent research, broker reports, and our GRI team's research, amongst others to aid the development of each investment thesis.

Governance and Responsible Investment team

GAM's Governance and Responsible Investment team is dedicated to ESG research and proxy voting and is currently made up of two analysts and our Head of GRI.

The GRI team was formally established in early 2018 and is central to the implementation of our responsible investment strategy, specifically tasked with ensuring that GAM meets its responsibilities by creating a systematic and comprehensive approach to ESG integration and assessment.

The GRI team is independent of investment teams and therefore not responsible for investment decisions. The role of the team is to provide PMs with ESG related data, analysis and research with the principal function of helping PMs to effectively and actively integrate ESG information into their investment strategies. This is achieved through a number of means, including:

- Conducting reviews of companies' corporate governance practices
- Exercising our voting rights at shareholder meetings
- Engaging with companies on material ESG issues
- Conducting reviews of a company's ESG processes, policies, risks and opportunities
- Providing ESG screening tools
- Providing ESG specific, research and data
- On-going monitoring of companies for ESG related issues

Responsible Investment Advisory Board and Governance Structure

The Responsible Investment Advisory Board (RIAB) comprises the Head of Investments (chair), Head of GRI, Equity and Fixed income PMs and other key senior stakeholders within the business. The RIAB, through the Head of Investments reports directly to the CEO. In addition, a member of the non-executive Board of Directors has been mandated to review our responsible investment activities.

The RIAB provides insight and guidance on GAM's responsible investment framework and policies, and to assess and guide the overall direction and strategy of responsible investment activity. By having stakeholders from across the business participate on the RIAB we ensure that we make ESG part of our firm culture. The RIAB helps drive consistency in our responsible investment activities, and is the main body that endorses our GRI policies, processes and procedures. We believe that this consistency of thought and approach ultimately benefits our clients through improved decision making and asset allocation.

Business Involvement Screening

The Luxembourg law prohibiting the financing of cluster munitions applies across all GAM funds excluding GAM Systematic. Whilst the Luxembourg listed funds have a legal and regulatory obligation to exclude financing cluster munitions or explosive sub-munitions, we believe it is appropriate to extend these exclusions across all our funds. This law arises from the Convention on Cluster Munitions ('CCM'), an international treaty, which aims to prohibit the transfer, manufacture and stockpiling of cluster munitions.

ESG and Business Involvement screening is possible at GAM and further information is available upon request from our sales and distribution teams.

External Resources

External research providers support PMs and the GRI team in our research analysis. ESG data provided by external providers supports the investment process and is used as a tool to identify ESG issues relevant to current and potential investee companies.

In addition to working with specific ESG data providers and proxy voting services, we are involved with a number of independent organisations, NGOs and institutions.

We retain investment discretion in-house and use ESG data services as additional tools and all research and data services are paid for by GAM Holding AG.

Training and Communication

We believe it is important for ESG knowledge and understanding to be shared widely and therefore identify and undertake ESG related training opportunities for PMs, analysts, sales and distribution, risk, compliance and legal teams, amongst others. Furthermore, we continue to advance our understanding of on-going developments and topical issues, such as climate change regulations and the evolution of green bonds, through peer networks, ESG and other investor conferences as well as meetings with relevant institutions.

Signatories and Standards

Our parent company, GAM Holding AG, became a signatory to the United Nations (UN) supported Principles for Responsible Investment (PRI)[1] in December 2014 and we are a signatory to the UK Stewardship Code[2]. Furthermore, we support the principles ensconced in the UN Global Compact[3] and the UN Sustainable Development Goals[4]. The Global Compact principles are in our view universal, inalienable and a sine qua non for all businesses.

We also take other important declarations, standards, national and international laws, treaties, codes and policies into account e.g. if we see principles of the Universal Declaration of Human Rights violated in the course of business, we would look to hold the board and corporate management accountable, through our engagement and proxy voting activities or ultimately our decision to remain invested.

Our proxy voting guidelines are designed with two main aims:

1. to promote value creation through good corporate practice, and
2. to mitigate of unnecessary risk. Although we think that major principles of good corporate governance are generally applicable we recognise that specific situations and circumstances have to be taken into account. Therefore our Guidelines account for differences in:
   - the regulatory and statutory framework in different geographies
   - PM and executive board views
   - global corporate governance best principles
   - national and international laws, treaties, codes and policies

[1] UNPRI https://www.unpri.org/
[2] UK Stewardship Code https://www.frc.org.uk/investors/uk-stewardship-code
[3] Global Compact https://www.unglobalcompact.org/
[4] Sustainable Development Goals https://sustainabledevelopment.un.org/?menu=1300

GAM INVESTMENTS ENGAGEMENT POLICY

INTRODUCTION

GAM Investments is a trusted investment partner and an active steward of our clients' capital. It is our responsibility to manage their capital as if it were our own and our fiduciary duty to act in their best interests. Engagement is therefore necessary to fulfil our duty and a prerequisite to fulfilling our obligations as a good steward for our clients' assets. Ultimately engagement is a core element of our ability to construct more robust portfolios for our clients.

As active long-term investors, engagement is a fundamental element of our investment processes. We engage with senior management of our investee companies continually on a diverse range of issues from material environmental, social and governance (ESG) factors to important economic, financial and operational aspects of the business models.

Where appropriate, we will engage with various stakeholders including, amongst others, investee companies' competitors and suppliers, customers, regulators, employees and middle management as well as non-executive board members. This builds our understanding of the economic, environmental, societal and industry specific systems of which we are all a part and ensures we gain a wider contextual view of the various factors that impact the stability and health of an investee company.

These conversations develop our understanding and appreciation of the evolving values and expectations of society and improve our insight into investee companies, their governance structures, financial position, operational performance and future prospects. Equally it allows us to share our philosophy and approach with companies to enhance their understanding of our objectives and expectations.

Portfolio Managers (PMs) generally consider the materiality of an issue before deciding whether or not to engage. By applying a materiality standard, we're able to prioritise our engagements, focusing on those issues that are most impactful on the investment case. This is a major driver of our understanding of the risk and reward profile of a particular business.

We have a range of engagement approaches, dependent on the nature of the issue, the company and the market. Whilst there are no formulaic rules which set-out how we engage, our dominant strategy focuses on developing one-to-one dialogue with targeted investee companies and is conducted on an on-going basis.

Collaboration with other investment management firms may be appropriate where our interests are aligned, and collective engagement best serves the interests of our clients. Collaboration can lead to better outcomes for companies and stakeholders, including importantly shareholders.

Purpose

The purpose of the Engagement Policy is to set out the general framework for our engagement activities, with investee companies, and other stakeholders.

The policy will outline:

1. our commitment to engagement
2. how we engage and who we engage with
3. the engagement process, iv) integrating engagement into investment processes and v) reporting.

Commitment to engagement

Active asset management is synonymous with stewardship, i.e. voting and engagement is fundamental for us as investors, to gain a deeper understanding of the material issues faced by investee companies. Equally, engagement allows investee companies to gain insight into our investment philosophy, goals, expectations and objectives. Engagement, therefore, is a two-way process of continual communication, fostering improved understanding of organisational governance, strategy and operations, including strategic and operational outcomes.

It is our view that engagement, from the point of view of the investee company, is integral to their continued success and sustainability, so we:

- Engage with a clear purpose and set-out to achieve defined outcomes
- Engage on material factors for the organisation, including ESG
- Are transparent about our objectives, expectations and timeframes for action

- Are flexible, open-minded and responsive
- Seek to add value to both the organisation and other stakeholders

Quality two-way engagement can deliver:

- More equitable and sustainable social development, as it broadens the purview of the company and investors
- Improved quality in management and reporting of material issues
- Better management of operational and reputation risks
- Collective solutions to material issues
- Improved understanding of complex operating environments and systems, including market developments and cultural dynamics
- Learning and development opportunities improving business processes and increasing innovation
- Enhanced investment decisions by investors and also better capital allocation decisions by companies
- Increased trust between investors, investee companies and other stakeholders

How we engage and who we engage with

Successful engagement depends on properly defining the purpose, the scope, and who is responsible for the engagement. Whether we engage also depends on whether the issue is material to the business. Materiality is broadly defined as the ability to influence the decisions, actions or behaviours of the organisation such that it affects the financial condition, operational performance or future prospects of the organisation.

By applying a materiality standard, we're able to prioritise and focus on those issues that impact companies the most. The purpose of engagement is generally connected to:

- governance
- management and strategy
- incentive structures
- capital allocation
- corporate culture
- interaction with society
- ecological efficiency
- general alignment with long-term shareholder interests

By defining the purpose, we strengthen our ability to measure the impact of our engagement activities.

The scope of our engagement activity is generally defined as:

- The subject matter of the engagement, i.e. the issue(s) being addressed
- The parts of the organisation (regions, divisions, etc.) and associated activities, products and services being addressed
- The time frame for the engagement

Who is responsible for the engagement, i.e. the stakeholders or owners of the engagement, is important. Our PMs and analysts, including the Governance and Responsible Investment (GRI) team, are usually responsible for leading our engagement activities. We will, and do, from time-to-time look to engage in collaboration with other asset management firms, NGOs, industry bodies and other relevant institutions and organisations.

The engagement process

This is a four stage process:

Plan – planning is generally made up of i) Profiling and identifying key stakeholders, ii) Determining the strategy, iii) Establishing boundaries for disclosure, iv) Drafting the engagement plan, and v) Establishing indicators and outputs to help determine success.

Prepare – some engagement activity may require additional resources, for example outside expertise, whilst other engagement activity may require a period of capacity building, for example building understanding, awareness and additional knowledge of a particular issue. Engagement is not without its risks, for example risks associated with compliance, operations, disclosure and strategy, amongst others. Being properly prepared for these risks contributes to a robust process and better outcomes.

Implement – this stage includes bringing potential parties together, setting out the details, initiating conversation, documenting and communicating outcomes and action plans.

Review, and Improve – each engagement is an opportunity to evaluate our own processes as well as develop a follow-up action plan.

Reporting

We will report on our engagement activity annually as part of our obligations to the UK Stewardship Code. GAM is currently (2018) investigating its position relative to other regulatory bodies, for example EFAMA (European Fund and Asset Management Association).

GAM INVESTMENTS CORPORATE GOVERNANCE POLICY

INTRODUCTION

GAM Investments is a trusted investment partner and is an active steward of our clients' capital. It is our fiduciary duty to act for the benefit of our clients and this includes actively considering all factors that impact their capital. We believe that good corporate governance is a major contributor to the success and sustainability of companies, capital markets and our clients.

Corporate governance is the control of management in the best interests of the company, including accountability to shareholders and other stakeholders. It is ultimately the system(s) by which companies are governed and managed. In our view companies which conduct their business in a responsible manner with good corporate governance, high standards of integrity and a sustainable business model deliver better long-term results to shareholders. As active managers of client capital, it is therefore an area of significant focus for us.

The purpose of this document is to provide guidance, on how we consider corporate governance factors in our investment processes and how we exercise our voting rights.

Our Approach

As active long-term investors, we view our relationship with companies and management as symbiotic, working in partnership with an aim to deliver long-term sustainable value. We are committed to promoting international standards and best practice, recognising that there are many cultural and geographical approaches to good corporate governance, whilst maintaining a pragmatic approach in the application of these standards and best practice. It is our view that companies should be given the freedom to find their own way to enhance their current and future financial and operational performance but that this freedom should not come at the expense of long-term value creation, good governance standards or environmental or social harm.

By creating regional and country specific Proxy Voting Guidelines (Guidelines), we have aimed to account for market best practices, regulatory and statutory concerns, market specific and global corporate governance best practice standards, as well as national and international laws, treaties, codes and policies. The Guidelines are governed by the four key principles of accountability, stewardship, independence and transparency, which underlie our approach to corporate governance and proxy voting. Whilst we recognise there is no ubiquitous approach to corporate governance for all companies, we carefully consider the bespoke considerations of individual companies, ensuring that those arrangements provide the necessary checks, balances and protection for shareholders.

Board and directors

The Board of Directors and executive management team are paramount to the success of all companies. We put a high premium on the individuals who make up these bodies and an even higher premium on the culture, values and principles they instil. Strong leadership demonstrates integrity and a commitment to upholding the values and high standards of the company. We typically expect the BoDs and executive management to be independently minded and be sufficiently diverse in opinion in order to promote and ensure that a good corporate culture permeates throughout the organisation. A capable, effective and insightful BoDs builds the trust and confidence needed for a true partnership of equals.

Board of Directors composition and balance – the role of the BoDs is to provide leadership of the company within a framework of prudent and effective controls which enables opportunities and risk to be assessed and managed. We value clearly-defined roles, fully independent committees whose responsibilities are well understood, a mix of skills, knowledge and experience, as well as diversity of opinion and thought. A diversity of gender, cultural background, and industry can enhance the decision making process of a board. In our view this creates a more effective and balanced board, which is in turn an important factor in the sustainable performance of the business.

Chairman and Chief Executive Roles - it is our view that the operation of the board is enhanced when there is a clearly independent, senior non-executive director to lead it. We prefer for the Chairman and CEO roles to be separate from each other. When the Chair is not independent, we do expect there to be a senior independent non-executive director.

Standards, values and culture – the BoDs must set high operational and strategic standards and values for the company, as well as set-out the company's responsibilities to outside stakeholders. A responsible culture with clearly expressed values mitigates risks to the long-term sustainability and reputation of the company, and can prevent poor practice. Board members should be (re)elected annually.

Succession – succession and succession planning is a priority for us at GAM from a corporate governance perspective. We encourage boards to be cognisant of this and pragmatic in ensuring that necessary arrangements are in place to manage succession of board members and senior management. Companies with good succession planning arrangements are generally seen to perform better over the long-term. We recognise that it can be advantageous for talent to be nurtured internally although we also recognise that in some situations external appointments may be appropriate. In our view, boards often benefit from periodically bringing in new directors in order to refresh the group's thinking. This should however not impact negatively on the effectiveness of the BoDs.

Independence – the independence of non-executive directors can be difficult to assess. Directors that have not been appointed through a formal, rigorous and transparent process are less likely to be considered independent. Equally, Directors whose tenure is greater than 12 consecutive years on the board are less likely to be considered independent.

Committees – where the board committee structure is in place, we prefer that these committees are 100% independent.

Over-boarding – the demands on boards are generally increasing, and we are concerned that this development will negatively impact the ability for directors to dedicate the necessary time and resources to the company. We therefore aim to evaluate the capabilities and the capacity of the non-executive directors elected to the BoDs. We begin to get concerned when a non-executive director has three (or more) non-executive appointments of listed companies, similarly, we would have concerns if one individual were to have two chairmanships of large complex organisations. Our proxy voting guidelines allow us a certain amount of discretion but over-boarding is increasingly becoming a significant factor that we consider in our assessment of boards.

Regarding executive directors, whilst we appreciate the possible benefits of serving on outside boards, we would begin to be concerned where an executive has more than one non-executive role.

Accountability, Audit and Risk

The BoDs is responsible for determining the company's approach to opportunities and risk, setting its culture and monitoring the controls in place to manage it effectively. We expect to engage with the chairman of the BoDs, senior independent directors and the board committee chairman if needed to ensure that concerns raised by us, and other investors, will be managed effectively. Whilst we are not in favour of generic risks reports, we encourage companies to disclose relevant material risks, especially those related to ESG, reputational, tax, and information security risks, amongst others. These disclosures should be succinct, material and appropriate to the company's long-term sustainable success; disclosure must avoid boilerplate and generic statements with the aim to help shareholders understand the risks facing the long-term viability of the company.

Internal audit and controls – we expect companies to have an effective system that accounts for new and emerging risks that will affect their business objectives. Companies should clearly set out their risk appetite and actions they have taken to identify and mitigate material risks.

Companies must establish effective internal controls (for example a whistleblowing policy) which are designed and integrated into the companies' code of conduct for employees. We expect these controls to be reviewed often, the outcomes of which should be alluded to in the viability statement or other statutory statements or board commentary. In general, we are interested in the BoDs opinion on the long-term prospects of companies; the long-term for us should reflect and be aligned with companies' business cycles.

Audit committee and auditors – the audit committee of the BoDs is also responsible for recommending the appointment of auditors whose responsibility it is to provide reassurance that the financial statements presented by executive directors are a true and fair reflection of the underlying health of the business.

We recognise the critical importance of financial statements which should provide a complete and accurate picture of a company's financial condition. We will hold the members of the audit committee or equivalent responsible for overseeing the management of the audit function. We take particular note of cases involving significant financial restatements or ad hoc notifications of material financial weakness.

The integrity of financial statements depends on the auditor being free of any impediments so as to operate as an effective check on management. To that end, we believe it is important that auditors are, and are seen to be, independent. Where the audit firm provides services to the company in addition to the audit, the fees earned should be disclosed and explained. Audit committees should also have in place a procedure for assuring annually the independence of the auditor.

Non-audit fees – we believe that consistent excessive non-audit fees compromise the integrity and independence of the auditor. The audit committee should have procedures in place to ensure that the independence and integrity of the audit is maintained.

Capital structure, mergers, asset sales and other special transactions

The capital structure of a company is critical to its owners, the shareholders, as it impacts the value of their investment and the priority of their interest in the company relative to that of other equity or debt investors. Pre-emption rights are a key protection for shareholders against the dilution of their interests.

In assessing mergers, asset sales or other special transactions, our primary consideration is the long-term economic interests of shareholders. Boards proposing a transaction need to clearly explain the economic and strategic rationale behind it. We will review a proposed transaction to determine the degree to which it enhances long-term shareholder value. We would prefer that proposed transactions have the unanimous support of the BoDs and that these transactions have been negotiated at arm's length. We may seek reassurance from the BoDs that executive and/or board members' financial interests in a given transaction have not affected their ability to place shareholders' interests before their own. Where the transaction involves related parties, we would expect the recommendation to support it to come from the independent directors and would prefer only non-conflicted shareholders to vote on the proposal.

We believe that shareholders have a right to dispose of company shares in the open market without unnecessary restriction. In our view, corporate mechanisms designed to limit shareholders' ability to sell their shares are contrary to basic property rights. Such mechanisms can serve to protect and entrench interests other than those of the shareholders. We believe that shareholders are broadly capable of making decisions in their own best interests. We would expect any so-called 'shareholder rights plans' being proposed by a BoDs to be subject to shareholder approval on introduction and periodically thereafter for continuation.

Whilst share buybacks may be a sensible strategy, we are also aware that such a use of capital could potentially be to the detriment of the longer-term prospects of businesses. As such, we expect clear disclosure around the rationale for share buybacks. Specifically we would expect disclosure on how the BoDs assesses buybacks against other investment opportunities as we would like to understand how a share buy-back has created long-term value for shareholders. We would expect to know the prices and number of shares that have been bought in the year under review as well as the intended use of the purchased shares. Finally, we expect transparent information on the effect of share buybacks on remuneration arrangements for executive directors and senior management.

Remuneration

We devote significant space to this topic here in order to set-out our views in advance.

Remuneration should motivate executives to achieve the company's strategic objectives, while ensuring that executive rewards reflect returns to long-term shareholders[5]. Pay should be aligned to the long-term strategy, and companies are encouraged to use the statement by the chairman of the remuneration committee (if applicable) to outline how their chosen remuneration approach aligns with the company's strategic goals and key performance indicators (KPIs). The remuneration committee should also closely examine the behaviour that the design of a remuneration package will promote.

A good performance target is aligned with company strategy, future direction and performance without promoting or rewarding disproportionate risk-taking. Targets should be challenging but realistic and should closely reflect a company's on-going business expectations. There should be a clear link between the objectives of the incentive plan and the company's strategy.

Pay should not be excessive relative to peers, global industry and sector averages or market sentiment. It is our view that executive compensation levels, especially in key markets, are out-of-line with the reality of the role and risk taken by executives. Remuneration committees should exercise caution when considering pay increases; any increases in total remuneration for executives should be in-line with general increases of regular employees at the company and should not exceed inflation without fully disclosed and legitimate justifications. Remuneration committees are discouraged from the disproportionate use of market benchmarking during pay reviews i.e. benchmarking executive compensation to self-selected peer groups; if necessary benchmarking should be conducted infrequently (at no more than three-to-five year intervals) and then only as one part of an assessment of the remuneration policy. One-off pay awards to address concerns over the retention of an executive director have frequently been shown to be ineffective and are therefore not typically supported. Similarly, significant pension contributions in excess of the general pension plan contributions attributable to company employees are, in our view, a cause for concern.

We are of the opinion that remuneration policies have become too complex and question their effectiveness in motivating management. We encourage companies to adopt simpler remuneration structures and refrain from introducing new share award schemes on top of existing plans, as this is, in our view, poor practice. Remuneration arrangements should be clearly disclosed with sufficient detail provided about the performance conditions so that we can make our own assessment of whether the performance conditions are appropriate. A remuneration policy which is brought in-line with accepted good market practice should not be used as justification for an increase in the size of the overall package.

We support giving remuneration committees the flexibility to choose a pay structure which is appropriate for the company's strategy and business needs. This structure may be different to the salary/bonus/Long Term Incentive Plan (LTIP) model typically followed by many companies. When forming a view on such arrangements, we pay particular attention to the following points:

- Whether the proposals are consistent with the principles set out in these voting guidelines
- The linkage between the proposals and the company's strategic objectives
- Whether or not the proposals have an appropriate long-term focus
- The extent to which the proposals help simplify executive pay
- The impact on the overall level of potential pay

Any proposal which provides for a greater level of certainty regarding the ultimate award should be accompanied by a material reduction in the overall size of the award.

We expect a company to work within its remuneration policy, and only go outside the policy in genuinely exceptional circumstances. Boards must avoid rewarding failure or poor performance; for this reason we do not support the re-testing of performance conditions or the re-pricing of share options under any circumstances. Implementing a tax-efficient mechanism that favours the participants should not lead to increased costs for the company, including the company's own tax liabilities. Tax gross-ups are not countenanced.

Engagement initiated by remuneration committees is expected to be in the form of a meaningful, timely and responsive consultation prior to the finalisation of the remuneration package; it should not just be a statement of changes already agreed by the remuneration committee. We call on compensation committees to be far more conservative in setting remuneration plans, to be vigilant of unintended consequences and mindful that, to be credible, executives must have significant levels of "skin in the game". We believe that in order for executives to be paid as entrepreneurs, they must behave as such, i.e. putting their own capital, reputations and livelihood at risk for the long-term benefit of the company and its stakeholders[6].

We acknowledge that compensation committees must take into account the specific circumstances of the company, balance this against a compensation package that incorporates appropriate and challenging performance conditions that are consistent with corporate strategy and market practice, whilst at the same time being able to attract and retain talent. We expect a company's compensation structure to incentivise and reward executives appropriately to be consistent with long-term shareholder interests. We see too many compensation plans that reward executives for short-term goals. We are able through our proxy voting activities to hold members of the compensation committee or equivalent accountable for poor compensation practices or structures.

We understand that compensation differs across geographies and industry; we therefore have a number of principles that underlie our views:

- Shareholders should be provided with clear, comprehensive compensation disclosures. Schemes should be clear and understandable for both investors and executives, and ensure executive rewards reflect long-term performance of the company
- Pay and performance must be appropriately aligned, with an emphasis on long-term value creation. Executives should have material long-term investments in the shares of the company they manage and companies should engage on strategy and long-term performance
- Arrangements that risk "pay for failure" should be avoided at all costs. Pay should be aligned to the long-term strategy and the desired corporate culture throughout the organisation. Where discretion is afforded, the compensation committee should use it to ensure rewards properly reflect business performance
- The compensation committee, where there is one, should be 100% independent
- Non-executive directors pay should be appropriate, and respect the agency principle. This means that non-executive directors are the agents of shareholders and they should not be conflicted in carrying out their duties, by receiving performance based pay. It is acceptable for Non-Executive Directors to receive a fixed fee or a fixed share awards but any performance based award should be avoided except for exceptional circumstances

Environmental, Social and Governance issues

Our fiduciary duty to clients is to act in their best interest; to protect and enhance their economic interest in the companies in which we invest on their behalf. It is within this context that we undertake our responsible investment and corporate governance activities. We believe that well-managed companies will deal effectively with all aspects of their businesses.

We expect companies to identify and report on the material, business-specific ESG risks and opportunities and to explain how these are managed. This explanation should make clear how the approach taken by the company best serves the interests of shareholders and protects and enhances the long-term economic value of the company. The key performance indicators in relation to ESG matters should also be disclosed and performance against them discussed. This helps shareholders assess how well management is dealing with the ESG aspect of the business. Any global standards adopted should be disclosed and discussed in this context.

We hold directors accountable for a company's approach to dealing with ESG issues, and we may reflect our concerns by supporting a shareholder proposal on the issue, where there seems to be either a significant missed opportunity or potential threat or realized harm to shareholders' interests caused by poor management of ESG matters. In deciding our course of action, we will assess whether the company has already taken sufficient steps to address the concern and whether there is a clear and material economic disadvantage to the company if the issue is not addressed. Often we will engage directly with the BoDs or management on a particular ESG concern especially if in our assessment there is potential for material economic ramifications for shareholders (as well as other stakeholders).

We do not see it as our role to make social, ethical or political judgments on behalf of clients. We expect investee companies to comply, at a minimum, with the laws and regulations of the jurisdictions in which they operate and respect relevant norms and values of the societies the operate in. We welcome explanations how companies manage situations where laws or regulations are contradictory or ambiguous.

Our approach to ESG is not "one-size-fits-all". We take relevant market-specific factors into account in our research, aiming for a consistent and responsible approach to ESG. This we believe translates into a consistent approach to voting on ESG issues. We have a robust framework for our proxy voting activity which ensures we're able to engage with businesses in a coherent and meaningful way in relation to ESG issues.

There are a broad range of ESG factors which may pose a risk to the company, its shareholders as well as other stakeholders over the long-term. It is our view that through engaging companies we're in a better position to effect change for the improvement of shareholders and other stakeholders alike. Our overarching approach is to consider whether the company's approach enhances or protects the long-term interests of the business.

[5] Whilst we at GAM have varying holding periods across our funds, we view long-term shareholders' interests as being aligned with the company's business cycle and for a period of more than three years.

[6] We are sceptical of the viability and primacy of shareholder return as a meaningful performance target / metric. There are in our view far more appropriate targets / metrics which management can be measured against.

GAM

Investments