GAM Investments

STEWARDSHIP REPORT 2016

KEY TAKEAWAYS

- Our review of our responsible investment and stewardship activities will conclude in December 2017 and culminate in the publishing of new responsible investment and corporate governance policies.
- We voted against 11% of all management proposals.
- We supported 43% of all shareholder proposals.
- Across the regions there were a few major topics which dominated:
  - » Remuneration, in particular executive compensation, was a prevalent topic in the UK, Europe and the US.
  - » Diversity issues were widespread in Europe.
  - » Across our global equities business, governance standards, in particular those associated with independence, were consistently raised as an area of concern.
  - » In the Asia-Pacific region (excluding Japan), the tightening of and improvement in, regulation was a welcome development.
  - » In the Japanese market, we looked mostly at corporate governance standards, board independence and return on equity.
  - » Finally, in Global Emerging Markets, corruption remains a major governance issue and we are working hard to tackle this significant problem. We additionally focused on remuneration disclosure and governance standards, including minority representation on the board.

GAM Investments

GAM aims to bring out the best in truly active asset management. Our mission is to act with integrity and execute with purpose to advance the potential of capital by making the appropriate decisions to achieve investor aspirations.

We use active strategies across discretionary, systematic and specialist solutions to deliver superior, sustainable investment returns. We value original thinking, integrity, committed decision making and a disciplined approach to investing. At GAM, our investment managers have absolute discretion in how they allocate our clients' capital; this fosters a conviction-led investment process. Our investment ethos is continuously aligned with the goals of our clients.

The growing challenges in the asset management industry led us to begin a strategic review of our business in 2015; this continued into 2016. We are now delivering on a number of key initiatives and priorities, including bolstering performance, identifying new investment models and increasing diversification of returns. In addition, we began an extensive review of our responsible investment and stewardship activities, stemming from our commitment to the UN Principles of Responsible Investment (UN PRI), to which we became a signatory in early 2015. Our review has continued into 2017 as we identify areas of strength within our investment teams and areas for development in how we report and capture our responsible investment activity. We envisage the full impact of the review will be felt in late 2017.

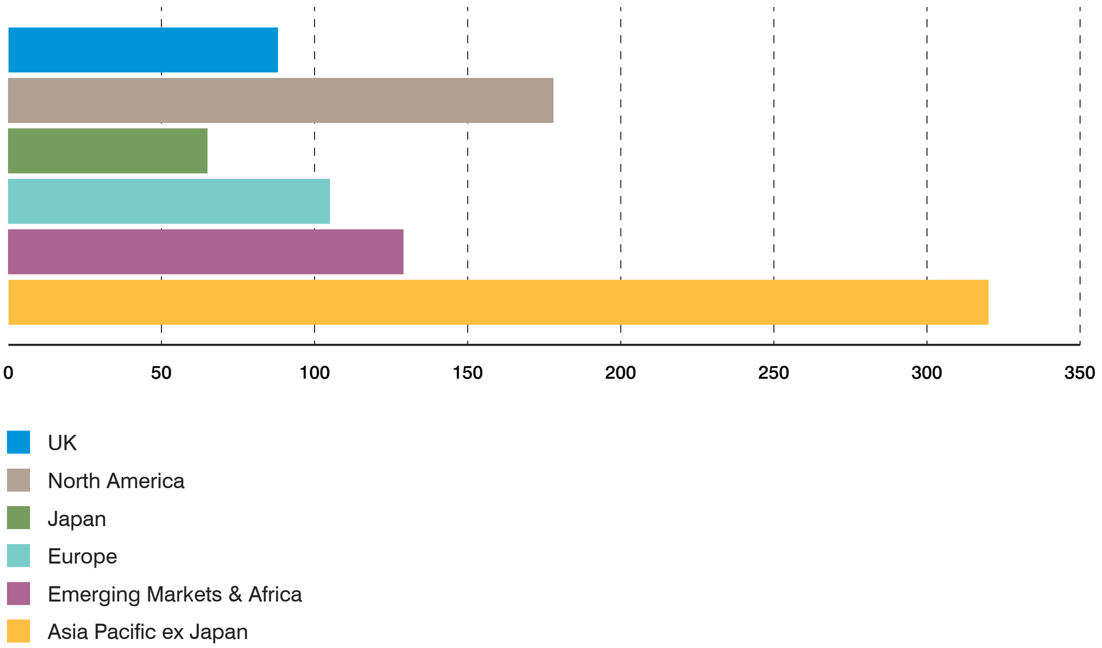
2016 was a year in flux. We began moving towards a systematic methodology in respect of responsible investment and challenged ourselves to improve our approach to stewardship and active management. At the core of every investment team's philosophy is the absolute belief that our rigorous analytical approach to financial markets will be rewarded with superior returns. Stewardship and active ownership are inherent in every team's investment style and include the integration of material factors such as strategy, capital allocation, environmental and social issues, governance, risk, culture and remuneration. Through the integration and consideration of these factors, investment managers construct conviction-led portfolios and are well placed to select the best investment opportunities over the long term. At regular meetings with company management, our investment managers will frequently discuss topics such as corporate strategy, business planning and delivery of objectives, capital structure, mergers, acquisitions and disposals, as well as issues around corporate governance and corporate responsibility and sustainability. Our investment managers' in-depth knowledge is a key element of our active ownership responsibilities, as is our ability to vote at shareholder meetings and engage with companies.

As of 31 December, 2016 GAM's investment management business held USD 67 billion of assets under management, comprised of segregated mandates and funds spanning all major asset classes. This, our second stewardship report, aims to provide a fuller picture on the 'active investing' of our long only equity investment teams and covers all markets.

PROXY VOTING ANALYSIS 2016

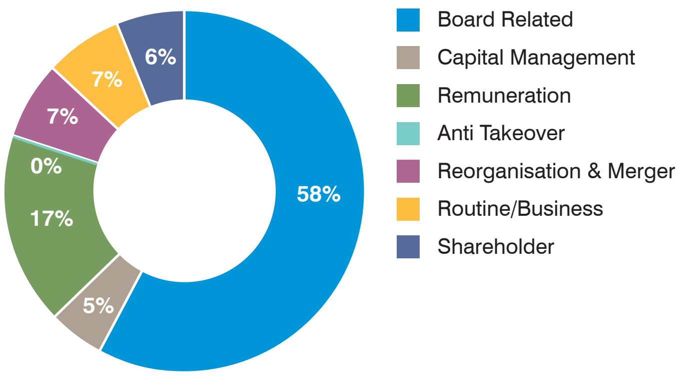
During 2016, GAM portfolio managers voted at 912 company meetings across all markets.

Summary of meetings voted by region



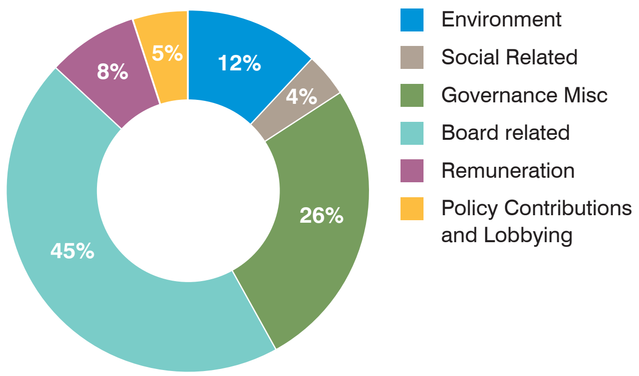
Summary of votes against management by resolution category

Of the meetings we voted, 11% were against management. Of those votes against, 58% related to board issues and 17% were remuneration related.



Summary of shareholder proposals supported by GAM

GAM voted 195 shareholder proposals in 2016 and supported 43% of all shareholder proposals.



UK EQUITIES

Remuneration was again a high-profile topic for UK companies in 2016. Investor sentiment around executive compensation has hardened along with 'say on pay' regulations in the UK in particular. This has led companies to engage more with their shareholders on their remuneration structures and encouraged shareholders to be more active in how we vote. We consider multiple factors when voting and while best practices support alignment between pay and performance and between management and shareholders, we believe a one-size-fits-all approach is unhelpful. We examine each proposal individually and are open to supporting seemingly unconventional remuneration structures if there is a compelling rationale. Some of the factors we use to make a voting decision include:

- **Transparency:** We ask ourselves whether there is enough detail to ensure clarity around the link between remuneration and mid-to-long term strategic goals.
- **Performance:** We consider whether the bonus schemes are aligned with performance and whether the targets are ambitious enough. Bonus claw back is now ubiquitous.
- **Quantum:** Here we think carefully about the overall quantum being paid, the share awards being granted and annual salary increases.
- **Governance:** The structure of the compensation committee, the history of the decisions and past votes for compensation are also important.

Six UK companies, including BP and WPP, were unable to pass their advisory or binding remuneration reports in 2016, with very high shareholder concern (above 30%) at approximately a dozen others, including Smith & Nephew and Anglo American.

Of the votes opposing management, 50% were against remuneration. Consistent with our multi-factor approach, there was no one major reason for voting against remuneration proposals. However, the issue of excessive pay, or pay rises over several years with no clear rationale, was flagged at several companies. A disconnect between pay and performance was another flag; this was the case at BP with the vote providing an interesting example of shareholders expressing their concern. BP stated at the time of disclosing its remuneration report for 2016 that the high bonus pay should reflect directors' contributions to the company's underlying performance and required stripping out the impact of the low oil price. In 2014, investors overwhelmingly supported the structure of the remuneration policy, voting 96% in favour. It was this policy that was followed in 2016. However, the discretion applied to executive compensation to reduce bonus pay-outs against the backdrop of very disappointing performance did not go far enough, in our view, with senior executives retaining their maximum bonus awards while compensation below executive level was affected considerably. 57% of all shareholders voted against the remuneration report.

Climate related and environmental shareholder resolutions increased globally over 2016, primarily driven by the COP21 Paris Agreement. Investors were particularly interested in how companies planned to meet their respective governments' commitments to curb greenhouse gas (GHG) emissions in order to satisfy the 'below two degrees celsius' scenario. 'Aiming for A', a UK shareholder group, proposed shareholder resolutions at Glencore, Rio Tinto and Anglo American in 2016, which asked for increased disclosure around each company's exposure to climate risk and their plans to mitigate it and reduce GHG emissions. We supported these resolutions, which were subsequently passed.

EUROPEAN EQUITIES

Achieving gender parity on boards continues to be an issue in Europe (not to mention globally) with positive but slow progress being made. European companies, in particular, face mandatory and voluntary requirements to increase the number of women nominated to their boards. France leads in Europe with the highest average number of female board directors at 5.2 women per board, compared to just 2.8 in the UK. (For comparison purposes, the US, despite being an early leader in introducing gender diversity, lags further with an average of just 2). France's 2011 legal requirement to increase women on boards to 40% by 2017 for companies listed in the CAC 40 has forced change and these targets now extend across the broader market as they seek to comply with the AFEP-MEDEF Governance Code. As a consequence, the average percentage of female directors being nominated in 2016 grew significantly as companies sought the most talented directors. Belgium chose to implement a similar approach to Norway's mandatory quota, requiring at least 33% of each gender on a board by 1 January, 2017. Few Belgian companies were compliant in 2016 and indeed AB InBev, the largest global brewer, had only 14% female representation on its board. Our other holdings listed on EuroNext Brussels, including Proximus, Melexis and UCB Groep, have already, or nearly, reached their quota which is positive, although the competition for female board directors is increasing.

Executive compensation was also a high profile topic at AGMs, with significant shareholder dissent noted in Germany where support for remuneration proposals for companies in the DAX30 and MDAX 50 indices was the lowest since 2012. The most notable votes in the region were at Deutsche Bank and SAP, where we opposed the remuneration policies for both management boards; we viewed the level of discretion and the compensation committee's decision to award bonuses irrespective of performance to be problematic at both companies. Additionally, we had concerns around the level of disclosure on key performance criteria, targets and caps. The lack of independence in the compensation committee (14% at SAP and 25% at Deutsche) versus their peers and their discretionary ability to set bonuses also contributed to our teams' decisions to oppose.

Incentivising and rewarding excellent performance should be the goal of all bonus schemes and our teams are happy to support pay policies which demonstrate that. We are committed to ensuring remuneration leads to value and focus on a number of factors over multiple years, including the remuneration committees' independence and historic performance, disclosure of pay targets and weights, relative quantum and the link to the performance of the business as well as to strategy.

GLOBAL EQUITIES

Improvement of board independence and composition, plus shareholder rights, were among the major issues for our global equities team throughout 2016. The combination of the CEO and chairman positions in particular remained an area of focus. There were high-profile shareholder votes against dual CEO chairman directors at a number of large US companies, including ExxonMobil and JPMorgan Chase. In the US, the dual role is proving remarkably persistent with over half of S&P 500 index constituents continuing to adhere to it. In Europe, companies have tended to phase out combining the two positions over the last decade, reasoning that businesses are better served with an independent chairman and that it eliminates potential conflicts in succession planning, executive compensation and director nominations. We consider an independent chairman a crucial conduit between us and the board, providing assurance that we, as shareholders, are properly represented.

Before supporting director elections where there is a dual CEO/chairman structure we consider the following factors (among others):

- **Size of the board**: a non-executive board that is it too small may not properly challenge a founder CEO. Conversely, one too large may fail to gain consensus consistently.
- **Independence**: This, in our view, is a crucial factor in determining a board's effectiveness.
- **Over-boarding**: The role of directors and their responsibilities are increasing in complexity and scope. The time demanded from directors is therefore increasing, undermining the ability of non-executives directors to take on multiple directorships.
- **Diversity**: A company's performance is shown to improve as the levels of diversity on the board, and within the company, increases. Diversity relates not just to gender but to other factors such as ethnicity, experience and skill, among others.
- **Experience and skillset**: The breadth of experience and skills are important considerations, especially with regard to industry, role and stage of development of the company.

Finally, we consider the company's rationale for the combination of positions and evaluate the merit for this governance structure. Indra Sistemas and Ubiquiti Networks are interesting examples of the dual leadership role in practice. The former is a consulting and technology company providing business solutions and IT outsourcing across various sectors. When deciding whether to support the combination of roles we had discussions with the company on the issue of board composition and how this structure would work in practice. The company was forthcoming in discussions and open to our suggestions to increase overall board independence. Ubiquiti Networks is an American B2B technology company developing proprietary wireless networking infrastructure and platforms. We had concerns over board composition ie the size of board, shareholder structure and a founder that was both CEO and chairman. Although we understand it can be valuable for the founder to remain deeply involved, we believed, in this instance, that the company would benefit from an improved board independence and structure. We discussed our concerns with senior executives and agreed to support board elections on the understanding that governance improvements would be implemented going forward.

In 2016, we supported shareholder proposals encouraging the elimination of dual class share structures with different voting rights. We assessed each company on a case-by-case basis and judged the boards' reasoning was insufficient to merit support in each instance. Generally, we prefer a capital structure where voting interests are proportional to economic interests (this also holds true for shareholder representation on the board). Different classes of common stock with disparate voting rights gives one class of shareholders disproportionate voting power in relation to the amount of equity held and entrenches management, rather than providing best value for shareholders. Whilst such proposals rarely pass, due to broad opposition to the concept of super-voting stock, we have consistently voted against these resolutions to indicate our disagreement with disproportionate voting interests.

ASIA PACIFIC EQUITIES EX JAPAN

Voluntary and mandatory corporate and governance regulation introduced in Asia Pacific markets has increased over the last few years, leading to increased levels of shareholder participation across the region.

In China, we welcomed the regulatory changes, particularly the tightening of regulation on listing policies and the Shanghai and Shenzhen Stock Exchanges separate regulations to restrict prolonged and sudden trading stoppages. We consider it good progress towards more shareholder-friendly practices. More specific and detailed disclosure surrounding asset restructuring is also aimed at protecting shareholder interests. We opposed management across a spectrum of issues; ranging from votes against material-related party transactions, amendments to Articles of Association to include anti-takeover measures (companies reacting to the hostile takeover attempt at China Vanke in 2016) and M&A proposals that attempted to include price-adjustment mechanisms. Along with an improvement in the regulatory landscape, a record number of administrative penalties were levied in the first-half of 2016, mainly against illegal information disclosure, insider trading and market manipulation. We see this as an encouraging development as authorities begin to tighten up on governance and market standards in China and confirms our belief that success in this market still depends on sound governance and increased shareholder communication.

Regulatory changes were also implemented across other Asia Pacific regions. In South Korea, a newly amended Code of Best Practices for Corporate Governance was introduced in 2016, aimed at improving board composition. The code has expanded the scope of companies subject to the revised recommendations and mirrors Japan's requirements for a minimum of two outside directors, but also to have a majority independent board regardless of size. More stringent guidelines on tenure, skills of both inside and outside directors and the composition of key board committees all go towards addressing concerns over the lack of board independence at South Korean companies, especially considering the interconnectedness of the many family-owned businesses (Chaebols).

A notable governance issue among our Indian holdings was the continued trend of poor director attendance, which is the lowest among the Asia Pacific countries. All our votes against directors in this market were associated with attendance.

In Hong Kong, all our votes against management were board related, focusing on the lack of independent directors.

JAPAN EQUITIES

Through the Stewardship Code and Corporate Governance Code introduced by Prime Minister Abe in 2014 and 2015, there has been increasing pressure on companies to engage with shareholders. As a result, voting has increased in importance. In 2016, we voted to increase the number of outside directors and board independence. There was a marked improvement generally in the number of Japanese companies, with 99% having at least one outside director and 82% having at least two. Along with some other shareholder-friendly improvements, such as the earlier disclosure of proxy materials and fewer concentration of AGM dates, we found voting at Japanese AGMs a little easier this year. This supports our view that progress is being made, especially in companies' willingness to engage on improving shareholder-friendly practices, including systematic improvement to return on equity, increased transparency on cross shareholdings and better use of idle assets. Our voting in support of outside and executive board directors reinforced our dialogue with company management on this issue.

An interesting vote in our Japanese portfolio over 2016 came at Nippon Steel & Sumitomo Metal, a company which manufactures and markets steel products. Shareholder approval was sought for the renewal of its poison pill strategy, a defensive tactic enacted by a company's board to discourage a takeover without board approval. This type of strategy can be detrimental to minority shareholders and we voted against it accordingly. We were, however, encouraged by the level of engagement by the company on this issue. When the takeover defence plan was introduced in 2006, it was implemented without putting it to a shareholder vote. Additionally, the board had no outside directors and had seen no reason to involve shareholders in what it regarded as a management decision. However, the board now has two outside directors and a fully independent poison pill committee, changes which would not have been foreseen a decade ago. These governance improvements, acknowledged by the company, in part due to the influence of the Corporate Governance Code, are promising and encourage our investment team to continue discussions with management to tackle further shareholder-friendly practices.

GLOBAL EMERGING MARKET EQUITIES

Our emerging markets teams consider corporate governance a key part of their overall stock research and use both meetings with company management and voting to continue building on their long-term knowledge and understanding of companies, which is seen as crucial for success in these markets.

Increasing governance regulation continued to be introduced across many emerging market countries from Russia to South Africa and Latin America over 2016, with a focus on improving company reporting and disclosure.

In the wake of the Petrobras scandal and the introduction of a new Code of Best Practice of Corporate Governance Brazilian corporate governance was of particular interest, especially leading up to the AGMs. The code aimed to strengthen whistle-blower channels to report misconduct, among other governance issues, and this was the first year companies had to report on their compliance with it.

Our key areas of concern were remuneration disclosure and minority representation on the board. Over half of all our votes against management were associated with remuneration. The main reasons we were unable to support management on these votes related to a lack of disclosure on either overall pay caps or performance indicators. There are standardised remuneration disclosure requirements in Brazil, introduced by the regulator in 2009, and we vote each year to encourage compliance with this disclosure. Further remuneration transparency is also being pushed by the Sao Paulo Stock Exchange and BM&F Bovespa, a regional exchange, as a response to an increasing number of Brazilian companies using a legal injunction in 2016 to prevent the disclosure of their key executives' pay.

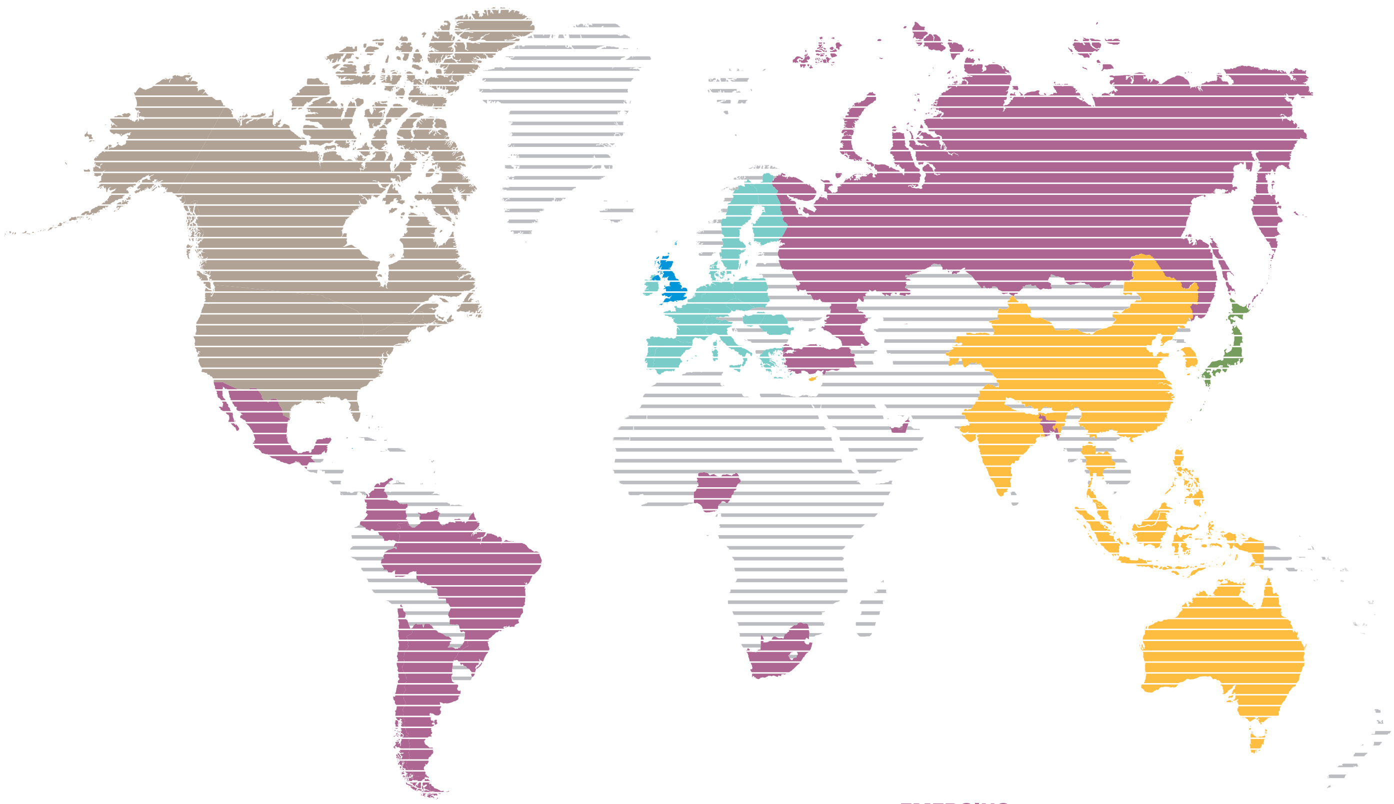
Our teams have seen slight governance improvements in the rest of our Latin American companies in general and in particular around the disclosure of board nominees. Bundled director elections are the norm across Latin America, with the election of directors and committee members presented as a slate election. For us, this is less than ideal as it limits our ability to hold individual directors accountable at the ballot box. Added to that is a lack of disclosure on the nominees themselves. Despite this, we were able to support two thirds of board elections across our Latin American holdings because levels of disclosure have improved, with companies disclosing the names of the board nominees prior to the general meeting. Overall, we saw modest, but important improvements, in respect of our emerging market holdings.

GAM Investments

ACTIVE MANAGEMENT, ACTIVE STEWARDSHIP

As we head towards the conclusion of the two-year review of our responsible investment and stewardship activities, we are more mindful than ever about how much an integral component of active investing this area has become. Our mission to act with integrity and execute with purpose can be just as important as actively selecting the right securities in terms of achieving the aspirations of our investors. We feel privileged to be able to bring this report to you as an indication of the valuable progress that we are making and invite you to revisit the key takeaways section on page 1.

APPENDIX – COUNTRIES OF SIGNIFICANT VOTING ACTIVITY



UK

UK
Guernsey
Jersey

NORTH AMERICA

Bermuda
Canada
Cayman Islands
USA
US Virgin Islands

JAPAN

Japan

EUROPE

Belgium
Cyprus
Czech Rep
Denmark
Finland
France
Germany
Greece
Hungary
Ireland
Italy
Luxembourg
Netherlands
Poland
Portugal
Spain
Sweden
Switzerland

EMERGING MARKETS & AFRICA

Argentina
Bangladesh
Brazil
Chile
Colombia
Mexico
Nigeria
Romania
Russia
South Africa
Turkey
UAE

ASIA PACIFIC EX JAPAN

Australia
China
Hong Kong
India
Indonesia
Malaysia
Philippines
Singapore
South Korea
Taiwan
Thailand

Important legal information