

# STEWARDSHIP REPORT 2017



# KEY TAKEAWAYS

- We completed a review of our responsible investment and stewardship activities in December 2017. This review culminated in the establishment of a dedicated Governance and Responsible Investment (GRI) function with dedicated analysts supporting our Portfolio Managers across asset classes.
- We voted at 1325 company meetings in 2017:
  - » Voting against 11% of all management proposals
  - » We supported 38% of all shareholder proposals
- As a group, the major areas we focused on were:
  - » Executive compensation
  - » Capital structure
  - » Director elections, including board succession, board independence and diversity
  - » Strengthening standards of corporate governance, including increasing disclosure and transparency
  - » Enhancing processes aimed at identifying and mitigating against poor corporate behaviour, for example fraud and corruption

**At GAM, 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.**

It is our fiduciary duty to actively consider all factors that impact our clients' capital. We account for what we consider to be the most material factors including the consideration of environmental, social and governance factors, alongside economic, financial and operational aspects, and integrate these into our investment decisions. We accept the importance of wider contextual factors, such as the stability and health of economic and environmental systems and the evolving values and expectations of the societies of which we are a part. A fundamental pillar of our investment philosophy is the belief that long-term sustainable returns are dependent on stable, functioning and well-governed social, environmental and economic systems.

As one of the world's leading independent, pure-play asset managers, specialising in active, high-conviction investing, stewardship and governance are important tools in our arsenal. We use active strategies across discretionary and specialist solutions with the aim to deliver attractive, 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. At GAM, engagement is a primary tool for us across all asset classes, and used in conjunction with our formal rights as shareholders and investors we will look to influence companies and ensure our clients' capital is not only safeguarded but also working hard in an effort to deliver the returns our clients expect.

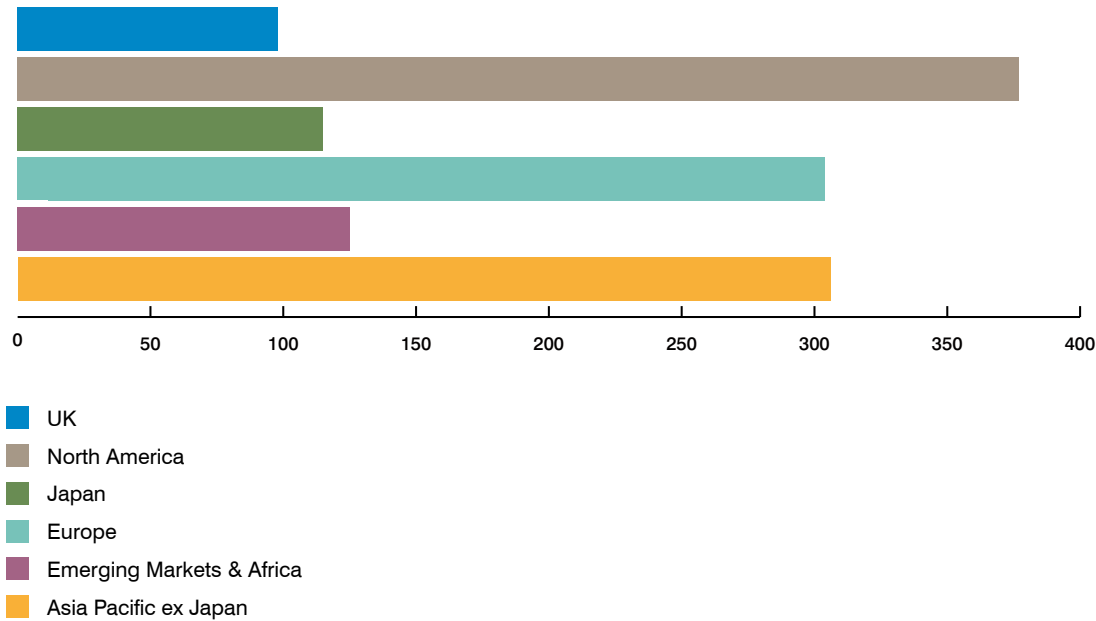
2017 was an important year in the development of our responsible investment and stewardship activities. Our commitment to the UN Principles of Responsible Investment (UN PRI) was strengthened with the establishment of a Governance and Responsible Investment (GRI) function, with a dedicated team of ESG analysts supporting investment managers. Our GRI team worked hard to update our proxy voting guidelines and strengthen our responsible investment policies in addition to supporting our investment teams with proxy voting and engagement. In 2018, we will begin disclosing all proxy voting activities in all geographic markets.

Active ownership is inherent in the vast majority of our investment teams' investment style and includes the integration of factors such as strategy, capital allocation, environmental and social issues, governance, risk, culture and remuneration. Through regular meetings with company management, our investment managers will frequently discuss these topics alongside corporate strategy, business planning and delivery of objectives, capital structure, mergers, acquisitions and disposals, as well as issues around corporate governance, corporate responsibility and sustainability. These discussions, together with our investment managers' in-depth knowledge of the companies in which they invest, help determine our vote at shareholder meetings and potential further engagement.

## PROXY VOTING ANALYSIS 2017

We voted at 1325 company meetings across all markets.

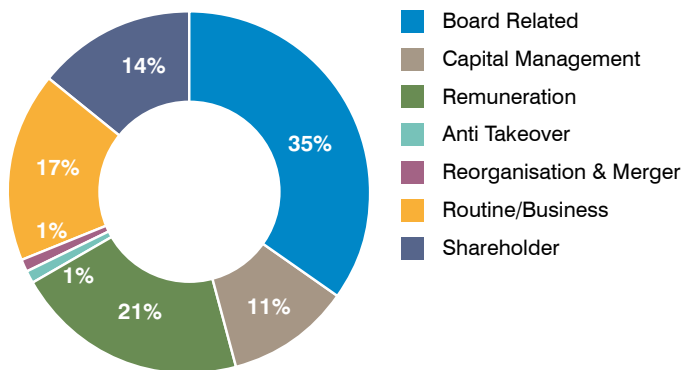
### Summary of meetings voted by region



Source: GAM 2017 proxy voting reports

### Summary of votes against management by resolution category

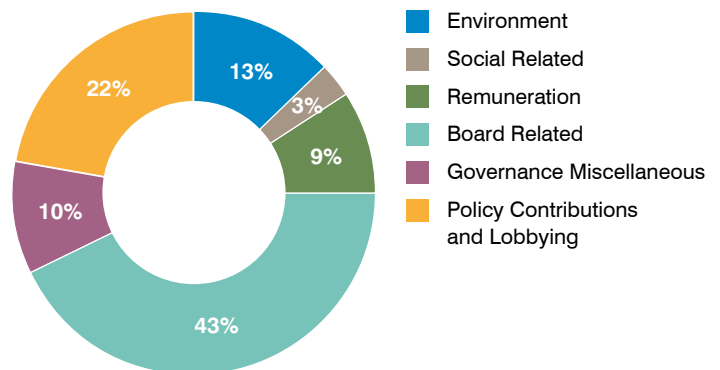
11% of all votes were against management. Of those votes where we voted against management 35% related to the board, 21% were linked to remuneration and 17% were related to issues including auditors, articles of association and reports and accounts (aggregated under routine/business).



Source: GAM 2017 proxy voting reports

### Summary of shareholder proposals supported by GAM

In 2017, we supported 38% of all shareholder proposals.



Source: GAM 2017 proxy voting reports

## UK EQUITIES

Throughout 2017, remuneration was again in focus for UK companies. Our views on executive compensation have become increasingly cautious with executive compensation largesse a major concern. Our levels of engagement have increased and we have progressively voted against remuneration proposals.

Our approach to executive compensation ensures we consider multiple factors, and while best practices encourage 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.

There are five principles that underlie our position on remuneration:

- **Disclosure and Transparency** – companies must provide shareholders with clear, comprehensive compensation disclosures. Pay schemes should be transparent and understandable for both investors and executives, and ensure executive rewards reflect long-term performance of the company
- **Pay-for-Performance Alignment** – maintain appropriate pay-for-performance alignment with emphasis placed on long-term value creation and we expect executive management to have material long-term investments in the shares of the company they manage.

- **Avoid Pay for Failure** – companies should avoid arrangements that risk “pay for failure”. Pay should be aligned to the long-term strategy and the desired corporate culture. Discretion afforded the remuneration committee should be used to ensure rewards properly reflect business performance, and malus and claw-back provisions should be inculcated.
- **Governance** – the compensation committee should be independent.
- **Non-Executive Directors** – inappropriate pay to non-executive directors should be avoided.

For all UK meetings, we voted at 98 meetings, across the group, in 2017 - we voted against management at almost 25% of those meetings and 50% of those resolutions related to executive compensation. There were two other major topics in 2017; the election of directors and capital allocation.

The increase in capital-related proposals in the UK in 2017 was due to a significant number of companies proposing separately two types of share issuance requests without pre-emptive rights, the first a general request, the second a request relating to acquisitions. This second request came instead of a unique authorisation to issue shares without pre-emptive rights for any purpose.

Our approach towards capital related resolutions in 2017 became more prudent, and will strengthen again in 2018. For example, our guidelines for 2018 will be more vigilant around approving a company's ability to issue large amounts of capital without providing valid rationale.

### The following is a list of companies where we voted against management for 2017

Acacia Mining plc	Camellia plc	Pearson plc
Atlassian Corporation plc	FastJet plc	Premier Veterinary Group plc
AstraZeneca plc	HSBC Holdings plc	Reckitt Benckiser Group plc
Balfour Beatty plc	Imperial Brands plc	Royal Bank of Scotland Group plc
Barclays plc	Liberty Global plc	Royal Dutch Shell plc
BT Group plc	Lonmin plc	Wm Morrison Supermarkets plc
Caffyns plc	Osirium Technologies plc	

## EUROPEAN EQUITIES

As in the UK, remuneration and capital structure were also areas of focus within European markets in 2017. There was an increase in remuneration related proposals in France for example, mainly due to the introduction of a new vote on remuneration policies. In 2016, the French government overwrote its prior decision not to introduce a say-on-pay vote by law. As a result, the Sapin 2 Act provides for annual binding say-on-pay votes (i) on the remuneration policy of each executive corporate officer (ex-ante vote) and (ii) on variable and exceptional compensation elements paid to each executive corporate officer (ex-post vote), respectively as of 2017 and 2018. The local corporate governance code (Afp-Medef) continues recommending an advisory say-on-pay vote on executives' remuneration reports.

France and Italy were markets which saw the largest average levels of dissent by GAM across all resolutions in Europe, around 6% for both in 2017, suggesting an increased level of scrutiny being brought to bear on European companies which was certainly the trend for us in 2017. In Germany and Switzerland, for example, we applied a more cautious approach to supporting executive compensation levels as well as around the structure and disclosure around compensation plans.

Across the major European markets we voted at just over 300 meetings, of which almost 60% received some sort of dissenting vote. Of the votes against management, 26% concerned

director elections, 7% related to capital allocation decisions, 22% concerned executive compensation and 9% related to shareholder proposals. Other business, mergers and acquisitions, article amendments and anti-takeover mechanisms formed the bulk of the remainder.

A major thematic area of focus for European regulators was diversity, extending the focus from prior years. At GAM, we take a progressive, pragmatic and supportive stance towards initiatives aimed at increasing diversity. We consider regulatory mechanisms, such as quotas, being utilised to tackle this issue as too blunt a tool. Our approach is to consider diversity in its broadest sense – it is not solely a board issue but an issue for the entire company and society as a whole. In our view, the lack of diversity relates strongly to inequality, around which there are many complexities requiring more informed ideas from business, political, religious and cultural leaders and proactive societal and cultural based initiatives, alongside those being done within business, to alleviate the problems associated with inequality. At GAM, we are very sensitive to these issues and we engage with investee companies to encourage them to be more aware of inequality within their businesses and to take a holistic, progressive approach in helping to tackle these concerns. At the same time we focus on our own structures to find areas where we could be doing more.

### The following is a list of companies where we voted against a management proposal

Atos SE	LafargeHolcim Ltd.	SC Fondul Proprietatea SA
Atresmedia Corporacion de Medios de Comunicacion SA	Leonardo S.p.A.	Schneider Electric SE
Axa	LifeWatch AG	Schweizerische Nationalbank
Bachem Holding AG	Logitech International S.A.	SFS Group AG
Baloise Holding	Lonza Group Ltd.	SGS SA
Banca Monte dei Paschi di Siena SPA	Luxottica Group S.p.A.	shaPE Capital AG
Banco BPM SPA	LVMH Moet Hennessy Louis Vuitton	Sika AG
Banco Popular Espanol S.A	Mediaset Espana Comunicacion SA	Societe Generale
Bucher Industries AG	Merck KGaA	Sonova Holding AG
Burckhardt Compression Holding AG	Merlin Properties SOCIMI, SA	Straumann Holding AG
CaixaBank SA	Metro AG	SUEZ
Calida Holding AG	Molecular Partners AG	Swatch Group AG
Carrefour	Moncler SpA	Swiss Life Holding
Casino Guichard Perrachon	Moneta Money Bank a. s.	Swiss Reinsurance (Schweizerische Rueckversicherungs)
Cellectis	Mota-Engil SGPS S.A.	Swissquote Group Holding AG

Cembra Money Bank AG	Muenchener Rueckversicherungs-Gesellschaft AG	Tarkett
Diasorin S.p.A	Mylan N.V.	Technogym S.p.A.
DKSH Holding AG	National Bank of Greece SA	Telecom Italia Spa
Dufry AG	Nestle SA	Telefonica S.A.
Ebro Foods S.A	Nexity	Teleperformance SE
Eiffage	NH Hotel Group SA	Temenos Group AG
Electricite de France	Nokian Tyres Oyj	Ternium S.A.
EMS Chemie Holding AG	Nordea Bank AB	Thales
Energa SA	Nos SGPS SA	Titan Cement Company SA
Galenica AG	Novartis AG	Total SA
GAM Holding Ltd.	Novo Nordisk A/S	u-blox Holding AG
Geberit AG	O'KEY Group SA	UBS GROUP AG
Georg Fischer AG	Orange	UniCredit SpA
Givaudan SA	OTP Bank PLC	Valeo
Grieg Seafood ASA	Panalpina Weltransport (Holding) AG	Valiant Holding AG
Helvetia Holding AG	Pargesa Holding SA	Vallourec
Hermes International	Partners Group Holding	VAT Group AG
Huegli Holding AG	Pernod Ricard	Veolia Environnement
IMA S.p.A. (Industria Macchine Automatiche)	Phoenix Mecano AG	Vetropack Holding SA
INFICON Holding AG	Raiffeisen Bank International AG	Vivendi
Infrastrutture Wireless Italiane S.p.A.	Remy Cointreau	Volkswagen AG (VW)
Interroll Holding AG	Renault	VZ Holding AG
Investor AB	Repower AG	Wasserwerke Zug AG
Italgas S.p.A.	Repsol SA	Wirecard AG
Julius Baer Gruppe AG	Rocket Internet SE	Yoox Net-A-Porter Group SpA
Kering	Romande Energie Holding SA	Ypsomed Holding AG
Komax Holding AG	Romgaz SA	Zehnder Group AG
Komercni Banka A.S.	Sacyr SA	Zurich Insurance Group AG
Kuehne & Nagel International AG	Saipem	
L Air Liquide	SAP SE	

## GLOBAL EQUITIES

2017 saw a significant increase in the number of Environmental, Social and Governance (ESG) related shareholder resolutions at US listed businesses. Almost 45% of all shareholder proposals that we supported in 2017 related to environmental and social issues. Supporting ESG-related proposals is one way we ensure companies are aware of our concerns. Another is through company engagement where we have the opportunity to discuss not only a company's track record but also their activities aimed at mitigating negative impacts, such as gambling's impact on individuals and more broadly, society.

We believe all material factors, be they environmental, social, governance, economic, financial or operational, should be considered when looking to make an investment decision. We accept the importance of wider contextual factors, such as the stability and health of economic and environmental systems and the evolving values and expectations of the societies of which we are a part and we believe long-term sustainable returns are dependent on stable, functioning and well governed social, environmental and economic systems. We will continue to support ESG-related shareholder proposals where these will have a positive outcome for the business and our clients.

In 2017, we voted against management at 188 of the 377 company meetings in the US. Over 35% of our dissenting votes were related to the election or re-election of board directors, almost 22% were related to executive compensation, with shareholder proposals making up 38% of our votes against management. 17% of all votes against management were in relation to environmental and social issues.

Executive compensation again featured prominently in our voting activity, with over 20% of all votes against management related to compensation across 81 companies. A significant concern for us is the continued misalignment in executive compensation across various geographical regions, primarily driven by increasing levels of executive remuneration among our US-based companies.

We consider governance structures to be important factors, including increasing board independence, stronger shareholder rights, and more effective use of shareholder capital. Therefore voting on shareholder proposals supporting proxy access rights and the elimination of dual class share structures was our default position. We will also aim to engage businesses when we meet them.

### List of all the companies where we voted against management

AbbVie Inc.	Flowers Foods, Inc.	PayPal Holdings, Inc.
Activision Blizzard, Inc.	Flowserve Corporation	Penske Automotive Group, Inc.
Aetna Inc.	Ford Motor Company	Pfizer Inc.
Aflac Incorporated	Freeport-McMoRan Inc	Philip Morris International Inc.
Alliant Energy Corporation	Frontline Ltd.	Pioneer Natural Resources Company
Alphabet Inc.	FuelCell Energy, Inc.	Post Holdings, Inc
Amazon.com, Inc.	GasLog Ltd.	Prudential Financial, Inc.
American Express Company	General Electric Company	Pure Storage, Inc.
Apple Inc.	General Motors Company	QUALCOMM Incorporated
Arconic Inc.	Genting Hong Kong Ltd	Regeneron Pharmaceuticals, Inc.
Ashland Global Holdings Inc.	Gilead Sciences, Inc.	Reynolds American Inc.
AT&T Inc.	Giordano International Limited	salesforce.com, inc.
Automatic Data Processing, Inc.	Golar LNG Limited	SBA Communications Corporation
AutoNation, Inc.	Haier Electronics Group Co Ltd	Scripps Networks Interactive, Inc.
Avista Corporation	Halcon Resources Corporation	SolarEdge Technologies, Inc.
Bank of America Corporation	Harman International Industries, Incorporated	Southern Copper Corporation
Bed Bath & Beyond Inc.	Helmerich & Payne, Inc.	Sprouts Farmers Market, Inc.
Beijing Enterprises Water Group Ltd.	Hertz Global Holdings, Inc.	Starbucks Corporation
Biglari Holdings Inc.	Hess Corporation	Stericycle, Inc.
BlackLine, Inc.	Honeywell International Inc.	Summit Ascent Holdings Ltd.
BlackRock, Inc.	HubSpot, Inc.	Superior Drilling Products, Inc.
BorgWarner Inc.	Integra Life Sciences Holdings Corporation	Symantec Corporation



Boyd Gaming Corporation	International Business Machines Corporation	Tableau Software, Inc.
Bristol-Myers Squibb Company	Intuitive Surgical, Inc.	Telephone and Data Systems, Inc.
Calpine Corporation	Janus Capital Group, Inc.	Textron Inc.
Canterbury Park Holding Corporation	Johnson & Johnson	The Advisory Board Company
Capital One Financial Corporation	JPMorgan Chase & Co.	The Boeing Company
Caterpillar Inc.	Kunlun Energy Company Ltd	The Charles Schwab Corporation
Celgene Corporation	L Brands, Inc.	The Coca-Cola Company
Charter Communications, Inc.	LendingClub Corporation	The J. M. Smucker Company
Chevron Corporation	Lennar Corporation	The Priceline Group Inc.
Cigna Corporation	Liberty Broadband Corporation	The Southern Company
Cisco Systems, Inc.	Liberty Expedia Holdings, Inc.	The St. Joe Company
Citigroup Inc.	Liberty Interactive Corporation	The Travelers Companies, Inc.
CLARCOR Inc.	Liberty Media Corporation	The Walt Disney Company
CommerceHub, Inc.	Liberty TripAdvisor Holdings, Inc.	Time Warner Inc.
Conduent Incorporated	Lockheed Martin Corporation	TRC Companies, Inc.
Conn's, Inc.	LSC Communications, Inc.	Tribune Media Company
ConocoPhillips	Man Wah Holdings Ltd.	Twenty-First Century Fox, Inc.
Crown Castle International Corp.	Mastercard Incorporated	Tyson Foods, Inc.
Cummins Inc.	McDonald's Corporation	U.S. Bancorp
CVS Health Corporation	McKesson Corporation	Union Pacific Corporation
Cypress Semiconductor Corporation	Mead Johnson Nutrition Company	United Parcel Service, Inc.
Dana Incorporated	Merck & Co., Inc.	United Rentals, Inc.
Deere & Company	MetLife, Inc.	United Technologies Corporation
Devon Energy Corporation	Mondelez International, Inc.	UnitedHealth Group Incorporated
Dick's Sporting Goods, Inc.	Monsanto Company	VCA Inc.
Discovery Communications, Inc.	Monster Beverage Corporation	Veeva Systems Inc.
DISH Network Corporation	Morgan Stanley	Verizon Communications Inc.
Dollar General Corporation	Mueller Industries, Inc.	Vertex Pharmaceuticals Incorporated
Dominion Resources, Inc.	National Fuel Gas Company	Viacom Inc.
Dr Pepper Snapple Group, Inc.	Netflix, Inc.	VimpelCom Ltd.
DXP Enterprises, Inc.	New Relic, Inc.	W. R. Berkley Corporation
eBay Inc.	Newmont Mining Corporation	Wal-Mart Stores, Inc.
EchoStar Corporation	NextEra Energy, Inc.	Waste Management, Inc.
Eli Lilly and Company	NIKE, Inc.	Wells Fargo & Company
Emerson Electric Co.	Nine Dragons Paper (Holdings) Ltd.	Westar Energy, Inc.
Epicore BioNetworks Inc.	Nucor Corporation	Western Digital Corporation
Expedia, Inc.	Occidental Petroleum Corporation	Wynn Resorts, Limited
Express Scripts Holding Company	Oracle Corporation	Yum! Brands, Inc.
Exxon Mobil Corporation	O'Reilly Automotive, Inc.	Zayo Group Holdings, Inc.
Facebook, Inc.	Panera Bread Company	Zendesk, Inc.
FedEx Corporation	PAREXEL International Corporation	

## ASIA PACIFIC EXCLUDING JAPAN

This region is characterised by a plethora of different governance standards and while fragmentation is beginning to wane there are still a number of idiosyncratic practices. In China in 2017, for example, the China Securities Regulatory Commission (CSRC) began the process of tightening the equity financing rules. We welcome the strengthening of regulatory practices in China and the focus on market-based practices.

Regulatory changes were also implemented in South Korea, with the newly amended Code of Best Practices for Corporate Governance introduced in 2016 coming into full effect in 2017. The changes saw progress in how directors are elected to the audit committee and director tenure. Additional improvements include the introduction of a Korean Stewardship Code and new Corporate Governance Disclosure requirements. 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 compositions 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 (Chaebol).

In Hong Kong, board independence remained a significant area of focus. At GAM we are supportive of the updating of the listing rules in relation to independent non-executive directors. We believe that board independence is a tenet of good corporate governance but we are also aware that there are a myriad of governance standards globally. Therefore, in Hong Kong we support the local regulators initiatives to improve governance standards.

In India poor director attendance remained a concern; we voted against the re-election of directors who had not attended at least 75% of board and committee meetings during the year.

Across the Asia Pacific markets, of the 307 meetings, we voted against management at 103 of them, director elections accounted for 33%, capital allocation for 27% and compensation accounted for 17% of all votes against management, while M&A activity and shareholder proposals accounted for 4.5% of the votes against management respectively. The remainder consisted of routine business items and included votes on changes in articles of association.

### The companies at which we voted against management

ADVANCED OPTOELECTRONIC TECHNOLOGY	Cox & Kings Ltd	Luzhou Laojiao Company Limited
Agricultural Bank of China Limited	CP All PCL	Maanshan Iron & Steel Company Ltd.
Aluminum Corporation of China Ltd.	Datang International Power Generation Co. Ltd	Macquarie Group Limited
AmorePacific Corp.	Doosan Bobcat Inc.	Mando Corp.
Angang Steel Company Limited	Eicher Motors Limited	Manpasand Beverages Ltd
Anhui Conch Cement Company Ltd	Fauji Cement Company Ltd	Maruti Suzuki India Ltd
Ayala Land, Inc.	Finetex EnE, Inc.	Melco International Development Ltd
Bank of China Limited	Fortescue Metals Group Ltd.	Minda Industries Limited
Beijing Enterprises Holdings Ltd.	Frasers Centrepoint Limited	mm2 Asia Ltd.
Bermaz Auto Berhad	Gail India Ltd.	MMG Limited
Bharti Airtel Ltd.	Galaxy Entertainment Group Ltd.	My E.G. Services Berhad
BOC Hong Kong (Holdings) Ltd.	Genting Berhad	NATCO Pharma Ltd.
BreadTalk Group Limited	Glenmark Pharmaceuticals Ltd.	New China Life Insurance Co Ltd.
C.C.P. CONTACT PROBES CO LTD	Globe Telecom, Inc.	NIIT Ltd.
Cathay Financial Holding Co., Ltd.	Gree Electric Appliances Inc of Zhuhai	Orion Holdings Corp.
CH Karnchang Public Company Limited	Greentown Service Group Co. Ltd.	PetroChina Company Limited
China Agri-Industries Holdings Ltd.	GS Home Shopping Inc.	PICC Property and Casualty Co., Ltd.

China Bluechemical Ltd.	Guangzhou Automobile Group Co., Ltd.	Ping An Insurance (Group) Co. of China, Ltd.
China Cinda Asset Management Co., Ltd.	GuocoLand Limited	PT Bank Negara Indonesia (Persero) Tbk
China Construction Bank Corporation	Haitong Securities Co., Ltd.	PT Bank Rakyat Indonesia (Persero) Tbk
China Everbright International Ltd.	ICICI Prudential Life Insurance Company Ltd.	PT Tambang Batubara Bukit Asam Tbk
China Fortune Land Co., Ltd.	Indraprastha Gas Ltd.	PT Timah Tbk
China International Marine Containers (Group) Co., Ltd.	IndusInd Bank Limited	PT Waskita Beton Precast Tbk
China Life Insurance Co. Limited	Industrial and Commercial Bank of China Limited	Reliance Industries Ltd.
China Machinery Engineering Corporation	Infosys Ltd.	Semirara Mining and Power Corp.
China Merchants Bank Co Ltd	International Container Terminal Services, Inc.	Simplo Technology Co., Ltd.
China Minsheng Banking Corp., Ltd.	ITC Ltd.	State Bank of India
China Mobile Limited	J. Kumar Infraprojects Ltd.	Sumeeko Industries Co Ltd.
China National Materials Co., Ltd.	Jardine Cycle & Carriage Limited	Sun Hung Kai Properties Ltd.
China Overseas Land & Investment Ltd.	JBF Industries Ltd.	The Wharf (Holdings) Ltd.
China Railway Construction Corporation Ltd.	Keppel Corporation Limited	Weichai Power Co., Ltd.
China Shenhua Energy Co., Ltd.	KPIT Technologies Limited	Woori Bank
China Unicom (Hong Kong) Ltd	L&T Finance Holdings Limited	Yihai International Holding Ltd
CITIC Securities Co., Ltd.	Larsen & Toubro Ltd	
CNOOC Ltd.	Lenovo Group Limited	

## JAPAN

The recently adopted Japan Stewardship Code was revised in 2016 with full effect of those revisions being felt amongst asset managers in 2017. Among the changes are measures to avoid conflicts of interest of asset management companies, particularly those which are part of large financial groups that also provide services to issuer companies and the obligation to disclose individual vote decisions at each portfolio company meeting. In 2017, we reinforced our commitment to being compliant with, not only the UK Stewardship Code, but the Japanese and other Stewardship Codes globally.

With regards to our proxy voting activity in Japan, we focus heavily on board independence. Japanese companies, as is the norm in Eastern economies, have been slow in our view to embrace outside and independent directors. This is changing and GAM is engaging and voting in particular on the structure of the boards, in line with the ambitions of the Japanese Corporate Governance Code. GAM voted to increase the number of outside directors and board independence at a large number of companies, challenging those companies in whom we invest to improve their disclosure and improve their classification of independent directors.

In addition to governance structures, there was a significant increase in the number of shareholder proposals in 2017. GAM predominantly supported those shareholder proposals which sought to improve governance standards. GAM views

the support of shareholder proposals as an important part of the engagement process with companies. We focus on these issues as they can have a meaningful impact on the company's willingness to work with its shareholder base.

Finally, we supported a number of proposals seeking an increase in capital efficiency. Japanese companies have had a tendency to stockpile cash and international investors have begun engaging and voting for Japanese companies to increase their returns to shareholders or to invest in their businesses through increased research and development. A particular area of focus has been on improving return on equity targets.

For the Japanese market we voted at 115 meetings and 30% contained a vote against management. Director elections accounted for 75% of all votes against management and shareholder proposals made up 16%.

### List of all the companies where we voted against management

Asahi Glass Co. Ltd.	Kyocera Corp.	Oji Holdings Corp.
Dai Nippon Printing Co. Ltd.	Mazda Motor Corp.	Resona Holdings, Inc.
East Japan Railway Co.	Medipal Holdings Corp	Seiko Epson Corp.
Eisai Co. Ltd.	Minebea Mitsumi Inc.	Shin-Etsu Chemical Co. Ltd.
FamilyMart UNY Holdings Co., Ltd.	Mitsubishi Electric Corp.	Sony Corporation
Fuji Media Holdings, Inc.	Mitsubishi Heavy Industries, Ltd	Sumitomo Electric Industries Ltd.
Hitachi Capital Corp.	Mitsubishi UFJ Financial Group	Suzuki Motor Corp.
Inpex Corporation	Mizuho Financial Group Inc.	Takeda Pharmaceutical Co. Ltd.
Isuzu Motors Ltd.	Nippon Steel & Sumitomo Metal Corp.	Tokyo Broadcasting System Holdings Inc
JFE Holdings, Inc.	Nissan Motor Co. Ltd.	Unicharm Corp.
Keyence Corp	NTT DoCoMo Inc.	Yahoo Japan Corporation
Kintetsu World Express, Inc.	Obic Co Ltd	

## GLOBAL EMERGING MARKET EQUITIES

In 2017, emerging markets continued to be plagued by corporate governance failures, in particular, corruption scandals in the Latin American markets. However our view is that the major corruption scandals of the past few years are beginning to fade in the rear-view mirror and that the lessons learnt over this period will begin to take effect. Evidence of these lessons is the increase in board independence across many emerging market companies. We have consistently voted for companies to improve their governance structures and 2017 could be an important turning point for the Brazilian market in particular.

As has been the trend in recent years, 2017 saw increasing governance regulation continue across many emerging market countries including Russia, South Africa, Brazil and other Latin American countries. Areas of focus centred around remuneration and director elections, especially minority representation on the board. Of the meetings where we voted in emerging markets, 44 had a vote against management. 54% of all votes against management related to director elections, with compensation accounting for 18%.

The main concern in relation to compensation was the lack of disclosure on pay caps and 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. The governance improvements in the rest of Latin American are encouraging and we expect this to continue into 2018. We are principally eager for the improvements made in director elections and effective capital management to continue.

### The following is a list of companies we voted against for the emerging markets

Aldar Properties PJSC	Gazprom PJSC	MMC Norilsk Nickel PJSC
Almacenes Exito S.A	Gruma S.A.B. de C.V.	MTN Group Ltd
Ambev S.A.	Grupo Financiero Interacciones S.A.B. de C.V.	Naspers Ltd
America Movil S.A.B. de C.V.	Grupo Mexico S.A.B. de C.V.	Rosneft Oil Company OJSC
Arzamassky Priborostroitelnny Zavod Imeni Plandina JSC	Grupo Televisa S.A.B.	S.A.C.I. Falabella
Banco do Brasil S.A.	Haci Omer Sabanci Holding AS	SC Fondul Proprietatea SA
Bashneft PJSOC	Impala Platinum Holdings Ltd	Shoprite Holdings Ltd
BRD Groupe Societe Generale S.A.	Industrias Romi S.A.	TUPY SA
Emaar Properties PJSC	Inter RAO UES PJSC	Turkiye Halk Bankasi A.S.
Emirates NBD PJSC	International Meal Co Alimentacao SA	Ultrapar Participacoes S.A.
Emlak Konut Gayrimenkul Yatirim Ortakligi A.S.	lochpe Maxion S.A.	Vale S.A.
Etalon Group Public Company Limited	JBS S.A.	Vina Concha y Toro S.A.
Even Construtora Incorporadora S.A.	KRAMATORSK CEMENT PLANT PUSHKA OJSC	Yakutia Railways JSC
Fibra Uno Administracion de Mexico S.A. de C.V.	Kroton Educacional S.A.	Zenith Bank Plc
FirstRand Ltd	LSR Group PJSC	

For more information, please visit [GAM.com](https://www.gam.com) or contact the Governance and Responsible Investment Team ([gri@gam.com](mailto:gri@gam.com))

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