GAM Investments

GAM: Approach to Stewardship

Update: June 2018

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2 Introduction

This document describes our approach to stewardship, referenced against the seven principles of the Financial Reporting Council's (FRC) UK Stewardship Code (the "Code"). The purpose of this document is twofold, firstly, to set out how our policies and procedures meet the requirements of the Code, and secondly, to increase understanding of the philosophy, beliefs and practices that drive our behaviours as an institutional investor in markets around the world.

3 What is the UK Stewardship Code?

The Code is a set of principles and guidance for institutional investors which represents current best practice on how they should perform their stewardship duties. The purpose of the Code is to improve the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code was published by the Financial Reporting Council (FRC) in July 2010, was updated in September 2012, and will continue to be overseen by the FRC when it is next revised in 2018. Commitment to the Code is on a "comply or explain" basis.

4 Our compliance with the Stewardship Code

We fully support the Code and comply with its principles. Although by its nature the Code is focused on the UK, we consider it to be a global framework. We aim to apply the same general principles to all assets and asset classes around the globe whether managed from our London office or not.

We believe the seven principles embodied in the Code can be broadly applied universally across markets and asset classes, and our approach is consistent with the principles and recommendations of Japan's Stewardship Code, Hong Kong principles of responsible ownership, Italian Stewardship Code as well as the codes of best practice that apply in other jurisdictions, including our operations in Europe, the United States, Asia and Switzerland.

Our London based office is responsible for setting our global responsible investment approach and for encouraging consistency of application across other offices.

5 Scope

The scope of this policy covers all management companies (Mancos) within GAM Holding AG that manage portfolios. It specifically excludes those funds and client accounts that are run and risk managed systematically (GAM Systematic) as well as those funds in our GAM Private Labelling business. It also excludes those funds where GAM Investment Management (Switzerland) (GIMS) acts as the outsourced Portfolio Manager for German AIF.

Where investment management is delegated to external portfolio managers, we expect those firms to fully comply with the UK Stewardship (or other international) Code. We will conduct annual reviews of all external investment managers.

6 Introduction to the principles of the UK Stewardship Code

The 7 principles under the Stewardship Code are as follows:

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Principle 3: Institutional investors should monitor their investee companies.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

6.1 Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Guidance

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration.

Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

The policy should:

- Disclose how the institutional investor applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.
- Reflect the institutional investor's activities within the investment chain, as well as the responsibilities that arise from those activities.
- Describe arrangements for integrating stewardship within the wider investment process.
- Where activities are outsourced, explain how this is compatible with the proper exercise of the institutional investor's stewardship responsibilities and what steps the investor has taken to ensure that they are carried out in a manner consistent with the approach to stewardship set out in the statement.

Approach

We are an independent global asset manager specialising in active asset management across a full range of investment strategies and styles in all asset classes. Investment teams are independent and afforded a high degree of autonomy in the management of their investment processes, philosophies and style.

At the core of every investment team's philosophy is the absolute belief that our rigorous analytical approach will be rewarded with superior investment returns. It is our ambition to effectively and efficiently strengthen our decision making processes through enhanced stewardship activities i.e. by integrating into our investment process material factors such as, the investee's company:

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

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

We believe that the systematic integration of ESG factors into our investment processes is important and therefore have introduced bespoke processes that enable us to continually monitor portfolios and investee companies for signs of ESG related risks and opportunities.

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 improve investee companies' operational and financial performance.

Portfolio managers generally will meet regularly with company management and, where necessary, non-executive directors. Frequent topics of discussion at these meetings 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
- corporate responsibility.

Our portfolio managers are assisted by our Governance and Responsible Investment (GRI) team in monitoring and providing feedback to companies, we view this as a core part of our responsibility as an active investor. We will actively communicate with companies and vote at shareholder meetings, engaging with companies as part of our voting process.

Our proxy voting process begins with the GRI team analysing each resolution for each shareholder meeting. The GRI team will make vote recommendations based on our principles of Corporate Governance and our bespoke Proxy Voting Guidelines to portfolio managers. Portfolio managers review our GRI teams' analysis and instruct the vote in a way they believe is in the best interests of their clients. The GRI team executes the vote instruction, using an outsourced proxy voting provider as the voting platform.

A fundamental element of the processes around our responsible investment activities is the ability of our portfolio managers to debate issues relating to ESG factors, this contributes to the development of our proxy voting guidelines and corporate governance and responsible investment policies. It also creates an inclusive and engaged culture which adds weight to and improves the effectiveness of our engagement and proxy voting processes, as well as strengthening our responsible investment and corporate governance policies and guidelines.

We convened the Responsible Investment Advisory Board, which is made up of portfolio managers and other stakeholders, to facilitate greater levels of engagement with portfolio managers and to help steer our responsible investment activities. In general, we do not outsource any of our portfolio management responsibilities however we do engage 3rd parties for example broker to assist in certain areas, where required, for example research.

In terms of outsourced external portfolio manager, where we do so, the GRI team will conduct an annual review of that portfolio manager's stewardship activities and policy.

6.2 Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Guidance

An institutional investor's duty is to act in the interests of its clients and/or beneficiaries.

Conflicts of interest will inevitably arise from time to time, which may include when voting on matters affecting a parent company or client.

Institutional investors should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.

Approach

In accordance with the FCA and other regulatory requirements, GAM is required to establish, implement and maintain an effective conflicts of interest policy or policies that is appropriate to GAM's size and organisation and the nature, scale and complexity of the business.

Our conflicts of interest policies are designed to ensure that conflicts of interest, both potential and actual, across the GAM Group are, identified, recorded and managed appropriately and, where necessary, disclosed in order to ensure fair treatment of clients.

At GAM our objective is always to act in the clients' best interests, managing any conflicts of interest fairly both between ourselves and our clients, and between clients. We recognise that conflicts of interest may arise in our business from time to time and have therefore established clear policies to manage these conflicts.

Whilst the policies set the framework for how conflicts are assessed and managed, they're not able and not intended to cover every issue. Instead, we rely on our employees to exercise sound judgment and to seek advice when appropriate, to disclose activities that are felt to constitute (or might constitute) a conflict of interest for themselves, a colleague, or GAM Group generally. The list below identifies some of the potential areas of conflicts of interest which we may face and is intended as guidance only and is not exhaustive.

- The allocation of securities transactions between clients
- The offering or receipt of gifts or entertainment
- Entering into mandates where clients have conflicting interests
- Entering into mandates where client interests may conflict with those of the GAM group
- Misuse of information for personal gain / inside dealing
- Personal account dealing by employees
- External appointments held by GAM staff members
- Multiple roles performed by GAM staff members within the GAM group

Each conflict situation is dynamic and unique we therefore have a conflict of interests committee which is responsible for the review and assessment of the specific issues. In the instance where the conflict arises due to our ownership of a specific security, the conflict of interests committee will review the issue and engage with our Head of Investments, Head of Governance and Responsible Investment as well as

Portfolio Managers to resolve the issue in the best interests of our clients. The conflicts of interest committee is also responsible for the monitoring of the ever changing landscape of conflicts relevant to our business and aims to ensure we evolve to reflect the changes in market practices and client and investor expectations around conflicts, as they occur.

We take the issue of conflicts of interest very seriously and we will make our conflicts of interest policies available to our clients and any other person who has legitimate grounds for reviewing them. We do not make our policies available to the public as there are a number of hypothetical examples of conflicts which in practice are unlikely to arise and we therefore want to be able to contextualise this in discussion with our clients (or other interested parties).

6.3 Principle 3

Institutional investors should monitor their investee companies.

Guidance

Effective monitoring is an essential component of stewardship. It should take place regularly and be checked periodically for effectiveness.

When monitoring companies, institutional investors should seek to:

- Keep abreast of the company's performance.
- Keep abreast of developments, both internal and external to the company, which drive value and risks.
- Satisfy themselves that the company's leadership is effective.
- Satisfy themselves that the company's board and committees adhere to the spirit of the UK Corporate Governance Code, including through meetings with the chairman and other board members.
- Consider the quality of the company's reporting.
- Attend the General Meetings of companies in which they have a major holding, where appropriate and practicable.

Institutional investors should consider carefully explanations given for departure from the Code and make reasoned judgements in each case. They should give a timely explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position.

Institutional investors should endeavour to identify at an early stage issues that may result in a significant loss in investment value. If they have concerns, they should seek to ensure that the appropriate members of the investee company's board or management are made aware.

Institutional investors may or may not wish to be made insiders. An institutional investor who may be willing to become an insider should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.

Institutional investors will expect investee companies and their advisers to ensure that information that could affect their ability to deal in the shares of the company concerned is not conveyed to them without their prior agreement.

Approach

At GAM we believe that one of the core components of active management is the on-going monitoring of the companies we commit capital to. Monitoring therefore is inherent in our investment philosophy, and it incorporates the analysis of the material factors, including the promotion of good corporate governance and sustainable business practices, for each business. It is important to recognise however that it is not possible to provide assurance that material risks or potential risks are identifiable or can be effectively assessed or addressed pre-emptively.

The GRI team supports our fund managers in the monitoring of and engagement with companies. Through their work, the GRI team increases our ability to incorporate Environmental, Social and Governance (ESG) factors into the investment process.

We monitor companies by:

- Carrying out annual reviews of companies' corporate governance practices against best practice standards during the proxy voting process. This follows the publication of companies' annual reports & accounts. We assess companies' governance structures and practices considering our corporate governance and proxy voting policies and guidelines.
- Additional ad hoc reviews on a company specific, portfolio, sector or thematic basis.
- The use of screening tools to assess governance and related risk indicators.
- The use of internal and external research and data.
- Monitoring of corporate developments through news flow, such as press articles and company announcements.
- Meetings with management and non-executive directors, advisors and sell-side analysts.
- Maintaining an active participation in formal and informal investor networks dialogue between institutional investors and other stakeholder groups.
- Attending companies' general meetings, where appropriate.
- Maintaining a dedicated database of the companies we invest in, tracking corporate governance, corporate responsibility and other investment issues, and our related engagement and voting activities.
- Reviews of the activities undertaken and their effectiveness.

The Code is designed on a "comply or explain" basis. We address departures from the Code on a case by case basis. Some of the issues we would bear in mind when considering a company's explanation of non-compliance, are set-out below:

- Have regard to the importance of promoting good practice.
- Assess the departure from the Code in relation to special circumstances affecting the company
- Refer back to previous engagements to ascertain the reasons for not adhering to the Code.
- Take into account the views of our fund managers and analysts on the strategy of the company, how well the board has delivered on this and for their assessment of individual board members in terms of competence, skills, experience and trust.
- Look at the overall compliance to the Code, the composition and independence of the board and its committees to assess how serious the departure from the Code is or whether it is minor issue in view of the overall behaviours and practices of the board.
- Consider the appropriateness of remuneration and whether arrangements are aligned to shareholder interests.
- Consider how receptive the company has been to shareholder concerns in the past, and relate that experience to any future concerns.
- Take into account our overall opinion of the board, and take into consideration all of the above to decide whether or not we concur with a company's rationale for its non-compliance.

In terms of “inside” information, the decision as to whether we should become insiders (i.e. to be in receipt of non-public price-sensitive information on a company and hence unable to trade in the company's shares during that time) is taken on a case by case basis. There may be occasion where we do not wish to be made insiders and we therefore expect investee companies and their advisers to ensure that information which could affect our ability to deal in the shares of the company concerned is not conveyed to us without agreement. Where we are made insiders our preference is to be an insider for as short a time as possible, and to have a clear idea of when we will be released from being an insider and when the information will be made public.

6.4 Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Guidance

Institutional investors should set out the circumstances in which they will actively intervene and regularly assess the outcomes of doing so. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, being underweight is not, of itself, a reason for not intervening. Instances when institutional investors may want to intervene include, but are not limited to, when they have concerns about the company's strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.

Initial discussions should take place on a confidential basis. However, if companies do not respond constructively when institutional investors intervene, then institutional investors should consider whether to escalate their action, for example, by:

- Holding additional meetings with management specifically to discuss concerns.
- Expressing concerns through the company's advisers.
- Meeting with the chairman or other board members.
- Intervening jointly with other institutions on particular issues.
- Making a public statement in advance of General Meetings.
- Submitting resolutions and speaking at General Meetings.
- Requisitioning a General Meeting, in some cases proposing to change board membership.

Approach

Engagement at GAM is more than intervening in a company's affairs to right a wrong or understand a particular issue after it has occurred. Our philosophy is that engagement is inextricably linked with our active investment process. Where issues do occur, and it is inevitable that they will, we are confident that the management team in place is best placed to deal with this externality.

As an active asset manager we engage actively with our portfolio (and potential portfolio) companies continually and the method we choose to engage is dependent on the circumstances and the issues to be discussed. Potential topics and issues over which we would likely intervene would include, amongst others:

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- Gross misconduct
- Consistent failures or departure from the Code.
- Concerns relating to the execution of strategy or lack of long-term strategic direction.
- Poor risk management.
- Significant or compounding financial underperformance.
- Other shareholders raising concerns with the company and collaborating with them to raise similar issues.

Stewardship, in our view, is about more than voting at company meetings, it includes; engaging with companies to influence company behaviour, seeking the generation of sustainable long term returns and focusing on emerging and systemic issues which are developing in the market and regulatory environment. Engagement therefore is inherent in our investment process and is usually practised independently and in strictest confidence with the senior executive and non-executive management of the company, however it occasionally is done collaboratively with other investors.

Engaging with companies provides us the opportunity to glean important details about strategy, operations, financial and external challenges and opportunities and is essential to the exercise of our stewardship duty. Engagement helps form and strengthens long-term relationships with companies, furthering our ability to have constructive conversations. It can be mutually beneficial by developing understanding of views and expectations on both sides forming the basis of high-quality decision making and good judgement.

Where engagement with executives has not yielded results, we would look to raise our concerns with the board chairman or senior independent director. Where we consider there is a compelling argument to do so and where we expect a positive outcome we would escalate our engagement further by collaborating with other institutional investors. Additional avenues we would consider includes engaging with a company's advisors and brokers, voting against motions proposed by a company at its general meeting(s), and public statements as a last resort.

For concerns related to the wider market, we may engage directly with regulatory and financial institutions in order to promote best practice, for example the Financial Conduct Authority, FTSE, the Takeover Panel, UK Listing Authority, Department of Business, Energy and Industrial Strategy or the Financial Reporting Council, in the United Kingdom.

The effectiveness of our engagement activity, however, is difficult to judge. We believe that as an active manager we are able to influence a company's management and its response to ESG issues however we don't believe that we alone make the difference. It is our belief that we are a small part of a much larger system and that our engagement activity contributes to the outcomes. It is our view that the collective voice across the industry, has a significant impact on the long-term sustainable success of companies, whilst our investment processes and investment views may be different, we firmly believe that by engaging with companies we promote the sustainable long-term success of business, the capital market and economic systems .

Despite this difficulty in judging the effectiveness of our engagement activity, the GRI will track all its engagement activity with companies and other capital market participants. Often a specific engagement can take a number of years before progress is made by the company. This progress is tracked by the GRI team and will be reported on at the end of each year that the particular engagement activity completes The engagement activities of our portfolio managers are currently not tracked systematically, however we do require portfolio managers to report their ESG engagement activity on quarterly basis.

6.5 Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

Guidance

At times collaboration with other investors may be the most effective manner in which to engage.

Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.

Institutional investors should disclose their policy on collective engagement, which should indicate their readiness to work with other investors through formal and informal groups when this is necessary to achieve their objectives and ensure companies are aware of concerns. The disclosure should also indicate the kinds of circumstances in which the institutional investor would consider participating in collective engagement.

Approach

As a specialist active asset manager we generally strive to leverage relationships to engage in collective engagement. This would include being a signatory of core initiatives and taking an active role in industry initiatives sponsored by organisations such as the UN Principles of Responsible Investment (UN PRI).

We acknowledge there may be instances where joint action by shareholders has the potential to be more effective than acting alone, in fact at GAM we actively seek out opportunities to collectively engage with other Asset Managers and industry bodies as we believe that this increases the likely impact we can have on a company.

Generally, our collective activity is reviewed on a case-by-case basis, and we are most likely to collectively engage collaboratively where we share a common interest, the issue is material or we have an ability to influence the company.

Specific collective engagement activity we would consider strongly are:

- Ensuring corporate governance standards are achieved
- Tackling specific Sustainable Development Goal objectives
- All topics associated with cyber and data security
- Diversity
- Other systematic issues that require significant collective action for example diabetes and poverty
- Climate change, carbon and other greenhouse gases

Our collaborative engagement process is set-out in our engagement policy which is on our website.

Contact our Head of Governance and Responsible Investment at GRI@gam.com to discuss any opportunities for collective / collaborative engagement.

6.6 Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

Guidance

Institutional investors should seek to vote all shares held. They should not automatically support the board.

If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. In both instances, it is good practice to inform the company in advance of their intention and the reasons why.

Institutional investors should disclose publicly voting records.

Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services.

Institutional investors should disclose their approach to stock lending and recalling lent stock.

Approach

Subsequent to our review of our proxy voting activities in 2017 we have updated our voting guidelines and our policy. We reaffirmed that we exercise the voting rights on behalf of clients at meetings of all companies in which we have a holding. Exceptions are where clients have retained the right to vote or where there are restrictions on voting, for example share blocking.

At GAM we have our own bespoke proxy voting guidelines as well as a proxy voting policy. Our governance and responsible investment (GRI) analysts are responsible for ensuring that these guidelines are implemented properly. In addition GRI analysts also provide proxy voting research to portfolio managers. Where we have a particular concern with the company or management proposal we will, wherever practical, seek to raise the concerns with the company prior to voting.

ISS (Institutional Shareholder Services) provides proxy voting services, for example execution of the proxy vote and vote disclosure services. Whilst we also receive ISS proxy voting research, our GRI analysts conduct their own research. The ISS research provides useful insight however it is not used to make voting decisions. Voting decisions are made based on the portfolio managers views in conjunction with the GRI analyst. We evaluate and consider each resolution separately, and look to ensure that decisions are made in accordance with our proxy voting guidelines and take into consideration any issues which may have been discussed with companies. We do not have a default policy to support management, in fact at GAM we have robust proxy voting guidelines which ensures that we abstain and vote against resolutions that we deem not to be in the best interests of our client’s.

We prefer that companies adhere to the principles and provisions of good corporate governance, for example those principles set out in the UK Corporate Governance Code (the “Code”) or other relevant national code of best practice, recognising that a different approach may be justified in certain circumstances.

We evaluate each deviation from the Code on its own merits placing the onus on the company to provide sufficient information to enable an informed view to be established, i.e. we expect companies to adhere to the comply or explain methodology set out in the Code.

We aim to engage with companies to resolve any issues, as this approach, in our experience, is more likely to be effective in influencing behaviours. By actively looking for opportunities to engage with companies throughout the year we are able to raise potential contentious issues early, we will however vote against proposals where we consider they are not in shareholder interests or where engagement proves to have been unsuccessful.

GAM's GRI team are responsible for overseeing the voting process, voting decisions are made by fund managers based on internal or external research and in close collaboration with our responsible investment analysts. Due to local legal and regulatory provisions the final voting authority will be with the executive board of the respective management company of the fund(s).

Regarding stock lending we favour the agent approach, whereby one or more intermediaries are mandated to conduct securities lending transactions on a fiduciary basis on our behalf. We require pre-collateralisation (receipt of the collateral is required prior to lending any securities) plus adequate insurance of operational and counterparty risk by an acceptable party or the relevant intermediary.

On an exceptional basis, other securities lending set-ups might be acceptable such as the principal approach, as well as other collateralisation mechanisms. Any such arrangement needs, however, to be approved by the Board of Directors of the respective management company and in case of a Luxembourg SICAV by its board of directors.

6.7 Principle 7

Report periodically on stewardship and voting activities

Guidance

Institutional investors should maintain a clear record of their stewardship activities.

Asset managers should regularly account to their clients or beneficiaries as to how they have discharged their responsibilities. Such reports will be likely to comprise qualitative as well as quantitative information. The particular information reported and the format used, should be a matter for agreement between agents and their principals.

Asset owners should report at least annually to those to whom they are accountable on their stewardship policy and its execution.

Transparency is an important feature of effective stewardship. Institutional investors should not, however, be expected to make disclosures that might be counterproductive. Confidentiality in specific situations may well be crucial to achieving a positive outcome.

Asset managers that sign up to this Code should obtain an independent opinion on their engagement and voting processes having regard to an international standard or a UK framework such as AAF 01/062. The existence of such assurance reporting should be publicly disclosed. If requested, clients should be provided access to such assurance reports.

Approach

From the end of Q2 2018 GAM will begin publicly disclosing our voting activity on a quarterly basis, one quarter in arrears. We will also publish an annual stewardship report. Both of these reports will be published to our corporate website.

Additionally, all responsible investment related information will be found on the responsible investment section on our corporate website. We will also provide detailed information on our stewardship activities to clients according to their requirements.

We intend to have our engagement and voting processes independently reviewed and assured against by our internal auditors in 2018 and our external auditors shortly thereafter (note that we cannot currently commit to a timeline for external auditing it may be in 2019 but won’t be later than 2020).

7 Contact details and further information

For further information on GAM's approach to stewardship, governance and broader sustainability matters, please contact our Head of Governance and Responsible Investment at GRI@gam.com

Further details are also available on our corporate website at www.gam.com

Mark Harland

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