Corporate Governance and Company Engagement 2014

Rathbones
Established 1742

Rathbone Investment Management is one of the UK's largest and longest-established providers of personalised discretionary investment services. Rathbones manages funds for individuals, charities and trustees, and is part of Rathbone Brothers Plc, an independent company with a listing on the London Stock Exchange.

Rathbone Unit Trust Management Limited is the unit trust management arm of Rathbone Brothers Plc. Rathbone Unit Trust Management offers a range of equity and bond unit trusts and a multi asset portfolio (consisting of three sub-funds) to meet clients' capital growth and income requirements. Rathbone Unit Trust Management specialises in investment management for the retail investor and segregated institutional accounts.

We believe it is in the best interests of our clients for the companies in which we invest to adopt best practice in corporate governance because it provides a framework in which each company can be managed in the long-term interests of its shareholders.

We have developed a bespoke corporate governance policy which builds on established best practice, compliant with and inspired by the provisions of the UK Corporate Governance Code and the AIC Code of Corporate Governance which covers investment trusts. Voting in line with the policy on our most widely held stocks helps us execute our responsibilities under the UN-backed Principles for Responsible Investment, of which we have been signatories to since 2009.

The Committee

Proxy voting at Rathbones is overseen by a committee of investment professionals from across the business, supported by a governance manager and an external proxy voting consultant. We aim to target our resources where they can make the most difference to the greatest number of clients. Therefore, we actively consider our proxy voting on the top 200 companies we hold by value, and on those companies where we own more than 3% of the share capital.

Primary governance goals are to encourage boards to:

- Adopt clear values and standards in business dealings throughout the organisation
- Develop a culture of transparency and accountability
- Focus on strategic issues and the quality of the business rather than simply short-term numbers
- Develop appropriate checks and balances to deal with conflicts of interests
- Maintain effective systems of internal control and risk management
- Create fair remuneration structures that reward the achievement of business objectives at all levels
- Recognise and responsibly manage impacts on all stakeholders.

2014 Voting Review

In 2014 we voted on 4,281 resolutions at 396 company meetings. Since best practice now requires boards of directors to be re-elected annually, the majority of these resolutions concern the election of boards. However, they also cover important issues such as executive pay and the appointment of the firm's auditors.

	% For	% Abstain	% Against	Meetings	No. of Resolutions
January-March	99	0.5	0.5	66	408
April-June	99.5	0.4	0.1	160	2,007
July	97.6	1.9	0.5	50	772
August	100	0	0	21	117
September	97.6	0.2	0.2	29	275
October	97.5	0	0.5	20	181
November	99.4	0.3	0.3	28	357
December	98.2	0	1.8	22	164
Year average	**99.1%**	**0.40%**	**0.50%**	**396**	**4,281**

On the face of it, the votes in favour of company management may seem high. However, a little context can be helpful in explaining our voting outcomes. Firstly, good governance is a pre-requisite for any company to be considered for inclusion in our portfolios and is a factor considered by our central Stock Selection Committee as part of the investment process. If there were severe concerns over corporate governance at a company, they would not be preferred for investment. This being the case, the worst examples of poor corporate governance rarely present themselves for consideration in our voting activities.

Secondly, the data concerns the total number of resolutions voted. It is now best practice for companies to seek annual re-election for their boards, and hence each board member is covered by an individual resolution in addition to the standard two agenda items on remuneration policy and other standard items. Most company agendas have around 20 resolutions on their agendas, of which the majority are routine.

Finally, we are in ongoing contact with the companies in which we invest. Voting against management is a relatively serious step and tends to happen only where dialogue has failed or serious concerns need to be raised. In the minority of cases where we vote against management, most attention has been paid to

Case Study

Executive remuneration
BG Group

Our proxy voting policy highlights situations where executive pay arrangements appear to be problematic. In keeping with accepted best practice, we are generally in favour of variable remuneration for executives, provided that the terms associated are sufficiently demanding and that the specifics details are disclosed.

In November 2014, we became concerned that the pay arrangements for BG Group's incoming CEO fell short of best practice. The overall size of the package was criticised widely in the media, but there were significant additional factors which would cause problems. The main issue was that BG's remuneration policy had been approved by shareholders only 7 months previously, and the company was immediately seeking to exceed the terms of its own policy. Secondly the performance conditions were not disclosed, meaning that we were unable to determine whether the targets were sufficiently demanding and in-line with the best interest of shareholders.

We were poised to vote against the deal when the company performed a U-turn. In the end, a restructured deal was proposed which did not require additional shareholder approval. However, this is not the end of the matter, as we have the opportunity to vote on the renewed appointment of the director who chair's the company's remuneration committee in 2015.

Auditor independence
Tesco

British retail giant Tesco has endured a difficult few years. In the second half of 2014, a major accounting scandal was uncovered involving the way in which the company treats income from its suppliers as part of its annual reporting.

As representatives of shareholders in Tesco, we have the opportunity to consider our vote to appoint the auditors at the next AGM of the company. Shareholders rely on the critical oversight of financial management provided by the audit, and questions must be raised about the suitability of a firm which approved accounts prior to a major scandal.

Looking Forward

We are committed to transparency in our proxy voting activities. You can read more about our approach to the management of governance risks in our public PRI reporting which can be found [http:www.unpri.org/signatories/signatories] on the PRI Website. In addition, from 2015 we will be producing quarterly and annual proxy voting reviews which will be available through our main corporate website.

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