



Neptune's Compliance with the UK Stewardship Code

May 2014

Neptune Investment Management believes that equity ownership and the rights and responsibilities thereof are important to shareholders and reasonable care and diligence must be applied to ensure that such rights are exercised properly and in a timely manner.

This belief is consistent with Neptune's overall investment approach which not only aims to seek out companies with strong investment potential but also with high standards of corporate governance and responsibility.

Neptune's approach and the importance it places on shareholder rights supports the aims and principles of the UK Stewardship Code which was adopted by the Financial Reporting Council (FRC) on 2 July 2010 and was incorporated into the Financial Conduct Authority (FCA) Handbook with an effective date of 6 December 2010. We have implemented the Code with the aim of applying a consistent approach on stewardship to all companies that we invest in on behalf of our clients. This policy has been updated in accordance with the revised Stewardship Code as published in October 2012 and will be reviewed on an annual basis.

Neptune has engaged Institutional Shareholder Services ("ISS") to provide additional support to help make more informed voting decisions. This support includes the provision of objective governance research and analysis and assistance with the end-to-end proxy voting process. However, we understand that while we choose to outsource some of our Stewardship activities, we are not delegating our responsibility for compliance with the Stewardship Code.

The below sets out how we implement our approach in relation to each of the principles of the Stewardship Code;

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

Corporate engagement is a key aspect of Neptune's wider investment process and may cover such areas as strategy, performance, risk, capital structure and governance. Ensuring that sound governance standards are maintained is essential to protect and enhance the economic value of our investments and those of the ultimate beneficiary or client.

Neptune has voting guidelines in place and engages ISS to provide objective governance research and analysis to ensure that informed votes are cast. These guidelines are reviewed annually to ensure continuing compatibility to our requirements. ISS also assist Neptune with the end-to-end proxy voting process which ensures votes are cast in an efficient and timely manner and in accordance with our guidelines.



The ISS proxy analysis and voting recommendations are based on publicly disclosed benchmark policies and guidelines which reflect prevailing market best practices, codes and standards of corporate governance in the market in which they are applied. There is no 'one size fits all' so ISS apply market-specific policies in each jurisdiction, either via a standalone national policy, or a regional policy with national exceptions or qualifications on particular issues where practices vary. These policies are developed and refined annually through a formal policy formation process, which includes input from investors and issuers on key governance trends and topics gathered through surveys and other vehicles.

ISS apply the NAPF Corporate Governance Policy and Voting Guidelines as the benchmark policy and collaborate with the NAPF in its own policy review process. They apply the 'comply or explain' principle in their analysis and recommendation process by taking account of the explanations with respect to non-compliance provided by a company in its public statements, speaking with companies who approach them to provide explanations with respect to their governance practices and proactively contacting companies seeking further input prior to issuing a recommendation in the event that explanations provided in public disclosures are incomplete or unclear. In addition, prior to publication of the benchmark vote recommendations, ISS aim to provide companies with an advance copy of the proxy report in order for them to check for any factual errors and to understand the rationale for any recommendation against a management proposal.

ISS will provide voting recommendations and vote on Neptune's behalf, however if Neptune wish to override any suggested vote, this is done using their Proxy Voting System. Intervention may occur where Neptune have undertaken additional research and met with the Board and Senior Management of investee companies and where we believe this will enhance the long term value of our investments.

- **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.**

Neptune has implemented and maintains comprehensive Conflicts of Interest and Code of Ethics policies which are designed to mitigate conflicts or potential conflicts as they arise. The Neptune Conflicts of Interest Policy can be found on the Neptune website.

Neptune acknowledges that conflicts of interest may arise in the context of our corporate governance and corporate responsibility work. We recognise that it is our duty to act in the best interests of our clients when considering corporate governance and voting matters. Our policies are designed to ensure that the management of any conflict is carried out in such a manner that clients are not disadvantaged as a result.



Where a potential conflict is identified, the matter will be referred to the Head of Compliance who will convene the Conflicts of Interest Committee which will include executive directors such as the Deputy Managing Director and the Finance Director as well as other members of staff as appropriate. The potential conflict will be discussed and a final engagement and voting decision will be made ensuring that they serve the interests of Neptune's clients as a whole. The final decision and all supporting rationale will be documented and will be made available to clients on request.

Neptune participates in collective engagement and will join forces with other institutional investors to ensure that boards acknowledge and respond to their concerns on critical issues. These circumstances may arise where Neptune has concerns over a corporate action which it deems to be detrimental to investors, for example, where a takeover is planned, which is perceived to be costly and without a clear strategy or where the takeover is believed to fail to give meaningful exposure to a growth area.

As Neptune is not owned by a parent company, no consideration is needed to ensure that this policy is implemented in the same way across other Group entities.

ISS also aim to operate their business to the highest ethical standards and publish their Ethics Policy, Engagement Policy and Conflict of Interests Policy on their public website.

ISS's Fiduciary Voting Services allows institutional investors to clarify fiduciary responsibilities and remedy the appearance of conflict with a set of flexible, automated tools for;

- identifying securities where a potential conflict of interest may appear;
- specifying the accounts where the appearance of conflict is important; and
- defining a workflow for handling the ballots identified as sensitive; for example, do-not-vote, refers to a third party, or apply a different proxy voting policy.

By automating this process, Neptune can take advantage of the efficiency of ISS's voting agency services, while avoiding even the appearance of a conflict of interest for sensitive meetings and ballots.

• **PRINCIPLE 3: Institutional investors should monitor their investee companies.**

Neptune fund managers and research analysts maintain regular dialogue with companies which forms part of their research notes published internally to the investment team. This communication allows Neptune to monitor the development of companies in areas such as;

- overall strategy;
- leadership;
- business planning;



- capital structure, including any internal or external developments that may drive the company's value and risk;
- company reporting;
- proposed acquisitions or disposals; and
- corporate responsibility and governance.

Fund managers are encouraged to hold one-to-one meetings with companies internationally which may also include site visits.

Analysis is presented at weekly Investment Team Meetings and is shared on our internal IT systems. Included within this research will be recommendations to buy, hold or sell and investments. Where a sell recommendation is given, this may be based on the identification of issues that are believed to result in a significant loss in investment value. Senior management including the Chief Executive and Deputy Managing Director will be made aware of these concerns at the Investment Team Meeting which they attend on a regular basis.

This research forms a core part of the Neptune Investment Process. However, overall responsibility for monitoring company performance rests with the portfolio managers who may seek further input from specialist sector analysts which may form the basis for company engagement.

Neptune operates an internal policy which instructs all members of the Investment Team to refrain from being wall-crossed without reference to the Compliance Department. Where a team member has been made an insider, the company or companies which are linked to the inside information are entered onto a restricted list which prevents any further trading on the stock until the information has been made public.

In the preparation of voting analyses and recommendations ISS undertake research on behalf of Neptune. In larger markets, ISS research analysts are organised into industry sector teams and monitor companies in their sector throughout the year. ISS endeavor to speak directly to a company if any aspect of their disclosure is unclear and to ensure that their understanding of the facts is accurate. They maintain meeting notes and include a synopsis of the discussions in their voting report to provide clients with an audit trail.

- **PRINCIPLE 4: Institutional investors should establish clear guidelines on when and how they escalate their activities as a method of protecting and enhancing shareholder value.**

Where appropriate, Neptune will actively communicate our views, identified through our internal research, to companies where we believe there are shortcomings in areas such as;

- company strategy;



- performance;
- governance;
- remuneration; and
- approach to risk.

We will continue any dialogue with the company over an extended period where deemed necessary. Escalation of our engagement activities, including any engagement with other investors, will depend on the company's individual circumstances and the nature of the concerns identified.

Actions may include communications through brokers, direct engagement with the chairman or non-executive directors or joint intervention with other shareholders, making a public statement in advance of General Meetings and, where appropriate, voting against the board proposals.

ISS will also make Neptune aware of any governance issues at the portfolio companies, whether that is through identifying risks, or via the proxy analyses and voting recommendations. Whether the ISS vote recommendation is ultimately for or against management, they 'flag' any controversial or particularly complex items on their reports in order to direct Neptune's attention to issues which may require further scrutiny in advance of any final voting decision.

- **PRINCIPLE 5: Institutional investors should be willing to act collectively with other investors where appropriate.**

Neptune recognises that in many instances joint action by shareholders has the potential to be more effective than acting alone. This is especially the case where shareholders have a clear common interest, such as in times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value. Neptune will pursue opportunities for collaborative engagement in such circumstances and will engage with other investors through formal and informal groups when it is necessary to achieve their objectives and ensure companies are aware of concerns. Instances where Neptune would consider participating in collective engagement include, but are not limited to, where concerns have been identified over a corporate action which it deems to be detrimental to investors, for example, where a takeover is planned which is perceived to be costly and without a clear strategy.

ISS also participate frequently in company-facilitated shareholder engagement forums and actively provide feedback and, where necessary, challenge, companies on governance practices within the framework of ISS benchmark policies.

ISS provide an online platform, Governance Exchange, which brings together the key governance constituencies of investors, non-executive directors and executives alongside academics, legal and other



professional experts as a resource for the education, debate and exchange of views that helps drive greater understanding and effective collaboration in the continuing evolution of best practices in corporate governance. This service is available to Neptune and can be utilised where collective action is deemed necessary.

- **PRINCIPLE 6: Institutional investors should have a clear policy on voting and disclosure of voting activity**

Voting

ISS enables Neptune to meet this principle of the Code in practice through the proprietary voting platform, ISS ProxyExchange. ProxyExchange is unique in that, via a single integrated platform, Neptune can vote all their shares, across all markets. The same platform also provides Neptune with ISS research to aid their voting decision. This global research covers more than 40,000 meetings each year; every holding within the portfolios in over 100 developed and emerging markets worldwide. As previously noted, prior to publication of the benchmark vote recommendations, ISS will provide Neptune with an advance copy of the proxy report in order for them to check it for any factual errors and to understand the rationale for any recommendation against a management proposal.

Where Neptune have taken a decision not to support a management proposal we will, where practicable, seek to raise the issue with the company prior to voting as it is recognised that this is good practice.

Disclosure of Voting Activity

ISS does not take voting decisions on Neptune's behalf, but provide voting recommendations which Neptune can override at any stage prior to voting.

ISS can provide post-season voting result trend reports which highlight shareholders' ultimate final voting decisions in aggregate at contentious meetings and place ISS' standard voting recommendations in the appropriate ancillary context. These reports are released publicly on their website on an annual basis and the underlying data is available on request.

ISS do provide the infrastructure and reporting capabilities to enable Neptune to comply with their disclosure and reporting obligations under Principle 6. This includes the ability to make public disclosure of the voting decisions on Neptune's own website.

Stock Lending

The entry into stock lending transactions or repo contract for the account of any Neptune fund is not permitted.



- **PRINCIPLE 7: Institutional investors should report periodically on their stewardship and voting activities**

Neptune publishes information on our voting record on our website www.neptunefunds.com. This is updated on a quarterly basis and summarises the voting activity for that period.

Neptune will obtain an independent opinion on our engagement and voting processes within the Annual Assurance Reports on Internal Controls of Service Organisations made available to third parties where assurance regarding the implementation of the Code will be combined with the existing assurance report based on AAF 01/06. The existence of this report is publically disclosed and will be made available to clients on request.

The ISS also ensure that they have a robust audit trail for stewardship in place and a clear record of Neptune's stewardship activities can be obtained from the ProxyExchange system. Therefore, a more detailed breakdown of all activity is available on request.

Share Blocking

Share blocking is a mechanism that prevents investors who wish to vote their shares from trading during a period prior to the annual meetings.

Neptune have excluded share blocking issuers so that only companies that apply the share blocking provisions in share blocking markets are excluded. Neptune will, however, vote any non-share blocking issuers in these markets.