



Governance & Stewardship

Annual Review 2014



Standard Life
Investments

Foreword



This is our third Governance & Stewardship Annual Review. It provides an account of our activities during 2014 as well as insights into our views on some of the key developments in governance & stewardship - past, present and future.

2014 was another busy year for our governance & stewardship team. We implemented our new Governance & Stewardship Principles and Policy Guidelines, not least in respect of the new shareholder rights in the UK relating to executive pay. We also published new Regional Voting Guidelines, which assist us in implementing our Principles and Policy Guidelines when voting the shares we manage on behalf of our clients at shareholder meetings around the world.

We shall continue to strengthen our accountability to our clients about how we fulfil our governance & stewardship responsibilities on their behalf. During 2014, we commenced a series of webinars and have been encouraged by the feedback we have received. For us, accountability is not an optional extra, and governance & stewardship is an integral part of the investment service we provide to our clients.

Whilst the governance of remuneration will continue to feature during our engagement with companies in 2015, as active investors we expect to focus increasingly on other aspects of shareholder concern such as succession planning, values and business practices, and audit quality.

Also, we are exploring ways to leverage our governance & stewardship resources to progressively improve our capability around the globe in an efficient manner. In doing so, be assured that we shall continue to apply a professional, flexible and principles based approach, which lies at the heart of serving our clients' best interests over the long term.

Keith Skeoch
Chief Executive
Standard Life Investments
February 2015

Contents

- 4 Standard Life Investments in 2014
- 5 Our approach to governance & stewardship
- 6 The year in review
- 8 Engagement
- 10 Engagement highlights
- 14 Global voting
- 17 Voting highlights
- 19 Influencing governance change
- 21 Looking forward
- 22 Responsible investment

Standard Life Investments in 2014

Standard Life Investments continued to expand its global footprint during 2014. Through a combination of organic growth and acquisition, we now manage assets worth £245.9 billion* and operate out of 17 countries worldwide. We also sought to build our investment capabilities during the year. As a result, we launched a number of products that aim to help our clients meet their objectives throughout their investment journey. Finally, in an ever-challenging investment environment, we continued to deliver outstanding investment performance across a range of asset classes, adding to our excellent long-term track record.

Notable achievements in 2014

- ▶ Standard Life Wealth, a whole-of-market discretionary fund manager with significant scale and market presence, moved to Standard Life Investments at the start of 2014 from Standard Life Group. This was a positive development, providing Standard Life Wealth with greater access to our award-winning investment platform, performance and solutions.
- ▶ In March 2014, we acquired Ignis Asset Management for £390 million, complementing our robust organic growth and strengthening our strategic positioning. In addition, the acquisition deepens our investment capabilities, broadens our third-party client base and reinforces a foundation for building a business in the rapidly developing liability-aware market.
- ▶ We entered into a new global collaboration agreement with Manulife Financial Corporation, which intends to distribute our products into Canada, the US and Asia. This agreement strengthens our existing, highly successful relationship with John Hancock, the US unit of Manulife, and is expected to more than treble our assets under management distributed by Manulife within three years.
- ▶ During 2014, we embarked on our first global sponsorship programme. As the only worldwide partner of the Ryder Cup, we ran a fully integrated campaign both before and during the event at Gleneagles in September. Our efforts at the 2014 tournament were highly successful and provided a strong platform for our sponsorship of the next Ryder Cup in 2016.
- ▶ We launched several new funds during the year, including the Enhanced-Diversification Global Emerging Markets Fund, which aims to generate GEM-like equity returns over an investment cycle but with less than 70% of the volatility of the GEM index. Other new fund launches included the Short Duration Credit Fund, the Commercial Real Estate Debt Fund and the Short Duration Global Index Linked Bond Fund.
- ▶ We continued to deliver superior investment performance for our clients across a range of asset classes. In fact, 87% of our third-party assets are ahead of their benchmark over one year, 90% over three years and 92% over five years.

Source: Standard Life Investments, as at 31 December 2014*

Our approach to governance & stewardship

Standard Life Investments played a leading role in the development of the Institutional Shareholders' Committee's 2009 Code on the responsibilities of institutional investors. It was the foundation for the UK Stewardship Code, first published by the Financial Reporting Council in July 2010 and updated in 2012. We believe that it is mutually beneficial for companies and long-term investors such as Standard Life Investments to have a relationship based on accountability, engagement and trust. Such a relationship helps to ensure that each has a good understanding of the other's views and expectations, and enables us to exercise constructive influence as and when appropriate. We believe that this serves to enhance the long-term value of our clients' investments and to protect their interests when necessary.

Governance & stewardship team

We have a dedicated team that focuses on developing and implementing best practice standards. We established our team in 1992 and it is regarded as one of the leading teams in governance & stewardship.



Guy Jubb
Global Head of
Governance
& Stewardship



Alison Kennedy
Governance &
Stewardship Director



Jonathan Cobb
Governance &
Stewardship Director



Mike Everett
Governance &
Stewardship Director



Douglas Wilson
Governance &
Stewardship Manager



Joanna McNeill
Governance &
Stewardship Manager



Nicola Robertson
Governance &
Stewardship Process &
Controls Manager



Claire Leighton,
Governance &
Stewardship
On Desk Support

For full details of our Governance & Stewardship Principles and Policy Guidelines and our approach to stewardship, please visit our website www.standardlifeinvestments.com.

The year in review

During 2014, regulators around the world flexed their muscles and brought to book companies and directors who had failed to play by the rules. This was reflected in significantly increased regulatory fines – particularly for banks and other financial services companies. These fines were not just confined to the financial sector however, with pharmaceutical giant GlaxoSmithKline paying RMB 3 billion to the Chinese authorities after being found guilty by a Chinese court for illegal activities arising from failings in its business practices. The fine was accompanied by a humbling public apology for its misdemeanours. Embedding business ethics and high standards of behaviour throughout organisations has never been more important.

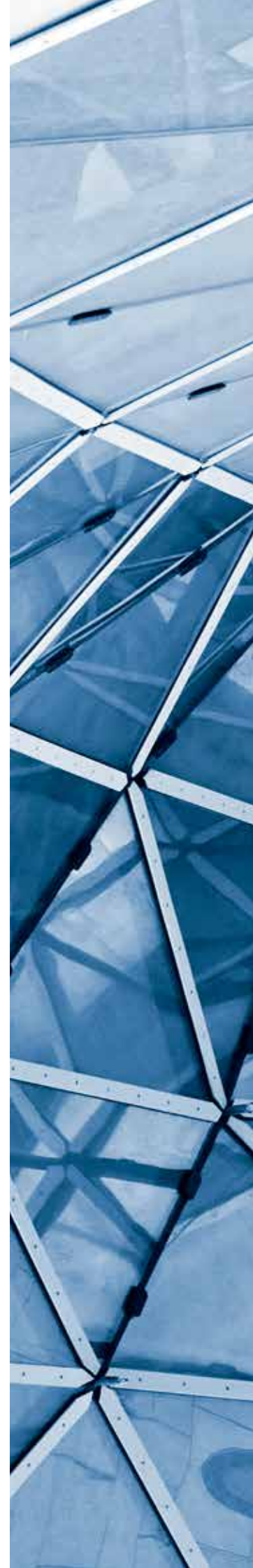
In the UK, companies and investors contended with the first full year of the new legislation and regulation which gave shareholders improved rights over executive pay. The focus of the new regime was on transparency and disclosure, and the binding vote on remuneration policies. The 2014 AGM voting season in the UK proceeded surprisingly peacefully but there were some notable levels of dissent at companies such as Barclays, Burberry, Standard Chartered and Sports Direct. Much of the focus of investor engagement was on linking pay to strategy, where we believe there is scope to improve the clarity and quality of explanations. In addition, there was focus on the importance investors attribute to executives aligning demonstrably their financial interests with those of shareholders by building up a meaningful shareholding in order that there is shared pain and, hopefully, shared gain when the share price goes down – and up.

Audit tendering also gathered momentum in the UK during 2014. We remain sceptical as to whether it will improve audit quality – sadly, there will always be audit failures. Certainly, there is no evidence that audit tendering is increasing the market share of the non-Big 4 audit firms. Indeed, we believe it has tended to reinforce a bias towards the Big 4 firms. It is notable that US Congress has rejected outright audit rotation and there is little prospect of this being resurrected in the US in the foreseeable future.

Shareholder activists were the focal point of attention in US corporate governance during 2014. Over the years, their approach has evolved such that they have strengthened their relationships with the US institutional investor community, whose support has sometimes served to strengthen the position of activists as agents for change and enhance the prospect of achieving their objectives. To our mind, shareholder activism underscores the potential benefits from improving investor stewardship in the US in particular. In this respect, it has been encouraging during 2014 to witness a greater willingness from US companies to engage with their investors about governance and stewardship issues and we hope this trend will continue to gather momentum.

In Japan, the launch of the Japanese Stewardship Code in April 2014 was a watershed. The Code comprises principles for responsible investors to promote the sustainable growth of companies through investment and dialogue. It is still early days but a number of key domestic and overseas investors are lending their support to the Code, which bodes well.

In the second half of the year, the European Commission launched its long-awaited consultation on its Shareholder Rights Directive. Some of the proposals proved controversial, such as voting on related party transactions, and the Commission was lobbied hard by a number of disgruntled investors and companies. However, Standard Life Investments is supportive of the proposals taken as a whole. We believe that over the long term they will enhance the attractiveness of Europe as a place to invest and do business.





“Embedding high standards of behaviour throughout organisations has never been more important”

Engagement

Engagement is at the heart of our governance & stewardship team's activities. Our regular dialogue on governance and stewardship issues with the companies in which we invest is an important component of our *Focus on Change* philosophy and investment process. It allows us to monitor investee companies, to hold them to account and to encourage the development of high standards. In addition, the ways in which companies manage environmental, social and governance (ESG) risks have a fundamental impact on the achievement of long-term investment returns. Therefore, we communicate our analysis and views to our fund managers in order that they can take this into account in their decision-making process.

In the UK, the context for our engagement is provided by the UK Stewardship Code. Introduced in 2010 and now with around 300 signatories, the Code contains a series of principles that govern the way investors engage with companies. The Code's objective was very simple: to improve the quality of engagement between companies and investors. So, four years on, has it made a difference?

Evidence from both the Financial Reporting Council (FRC) and the Investment Association (IA) suggests a positive impact. The FRC publishes an annual report on the impact of the Code and its latest report states that there is now more engagement on a wider range of issues between larger companies and major investors, although there are broader concerns about the quality of engagement across the listed sector as a whole. There is growing demand from asset owners for their investment managers to apply a stewardship approach. Clients and their investment advisors are increasingly recognising that ESG factors have an impact on risk and returns and so want to understand how fund managers take account of that risk in portfolio construction. The IA annual survey of investors' adherence to the Code supports this: there is evidence that an increasing number of client mandates make explicit reference to stewardship and almost all of the 82 asset managers that responded now report to clients on their stewardship activities. The latest report also shows that there has been a significant increase in the resources devoted to engagement.

Our own experience supports the FRC and IA conclusions. Companies are engaging earlier when there are potentially contentious matters to discuss and are generally more proactive. One practice that is definitely more common now is for companies to hold a meeting with major

shareholders outside of the AGM season to discuss strategy and governance. For example, we attended such a meeting with BP during the year.

The introduction of the UK Stewardship Code sparked a debate in a number of other countries about the potential benefits of such an approach and several, including South Africa and Malaysia, have introduced similar codes. In Japan, where governance standards are perceived to be weaker than in many other countries, they now have a Stewardship Code modelled extensively on the UK Code.

The focus of our engagement activity continues to evolve. In our discussions with companies, we are spending more time on audit and board succession matters. On audit, we have been concerned for some time about the lack of competition and choice in the audit market. There are now new requirements for companies to tender their audit on a more regular basis. When they are tendering, and where we are significant investors, we believe it is important that we speak to the chair of the Audit Committee about the tender process. We have done so recently at Interserve, Harvey Nash and Severfield. In the case of Interserve, the company was considering appointing an auditor outside of the Big 4 and were keen to hear our views. The company subsequently decided to appoint Grant Thornton and we were happy to support this appointment at the AGM.

In terms of board composition and development, we are keen to understand how the Nominations Committee approaches the search for new directors, both executive and non-executive. Our concern is that the process should be robust and transparent. We may make suggestions as to how the board should be strengthened and, where we are significant shareholders, we may suggest potential candidates for the Nominations Committee to consider. We have also continued our engagement with the German Regierungskommission, the body responsible for the Corporate Governance Code, regarding the need to improve the process by which Supervisory Board members are nominated in the German market.

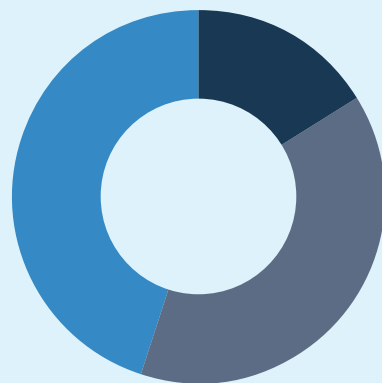
As our business becomes more global, we are progressively engaging more overseas. However, this is often much more difficult due to language and other issues, and hence a collective approach can be more useful. This is the approach we have adopted in Japan where

we have been instrumental, along with two other UK investors, in co-ordinating a letter signed by 20 global investors and sent to 34 large Japanese companies. The letter requests that these companies increase the number of independent directors on their boards. It is common in Japan for companies to have only one or possibly two 'outside' directors but many of these individuals have previous connections with the company so are not truly independent. Our initiative has struck a chord in Japan against the background of Prime Minister Abe's drive to improve governance as part of his 'Abenomics' programme. We plan to follow up this letter with further direct engagement with a number of the companies.

Another challenge that Standard Life Investments, and indeed the whole fund management industry, is facing is how to increase the level of integration between fund managers and the governance function. At Standard Life Investments, the governance & stewardship team has a good dialogue with our fund managers on voting issues and our analysis is available on their research platform. There is an increasing need for governance factors to be considered more systematically as part of the investment decision and we are working with our fund managers to ensure this is happening. For example, we have begun to introduce governance screening measures into our global process to reflect our increasing geographic footprint.

The following pages provide details of some of the key engagements we have undertaken this year. These engagement highlights provide context for Principles 2, 3 and 5 of the UK Stewardship Code relating to monitoring, escalation and acting collectively.

Engagement summary 2014



- Meetings & other engagements 245 (45%)
- Voting engagements 209 (39%)
- Remuneration consultation 88 (16%)



Engagement highlights

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

Sports Direct ●

Sports Direct is a FTSE 100 retailer of sports goods, apparel and accessories and is majority owned by its founder, Mike Ashley. It is headquartered in Derbyshire, UK, and was listed on the London Stock Exchange in early 2007. In the year to the end of April 2014, Sports Direct generated sales of £2.7 billion. It has grown a significant online sports retail business and enjoys a dominant position in the high street sports goods market.

Action: Concern over governance arrangements has been a persistent theme of the relationship between Sports Direct and its minority investors. These issues have included board appointments, inappropriate remuneration arrangements, share lock-up agreements and Sports Direct's practice of buying minority stakes in other companies. In July 2014, minority investors voted, by a modest margin, to approve a new incentive scheme for executives after two years of discussion and at the fourth time of asking. In the wake of this vote, we engaged collectively with other minority investors to impress our concerns upon the Chairman and to discuss the need for a higher standard of governance assurance.

Outcome: Many of the issues that informed the collective engagement remain unresolved. Recent changes to the Listing Rules that relate to the dual vote on independent directors at majority controlled companies could provide a catalyst for change in the absence of improvement.

RSA Group ●

RSA Group is a FTSE 100 provider of personal, commercial and speciality insurance products with net written premium of £8.7 billion in 2013. The group can trace its origins back to the early 18th century and was formed from the merger of Sun Alliance with Royal Insurance in 1996. It is one of the UK's leading general insurance providers and has a strong presence in the Scandinavian and Canadian markets.

Action: RSA changed its auditor in early 2013, the third such change in six years. In the autumn of that year, the group was forced to part company with its CEO following the disclosure of accounting irregularities at its Irish subsidiary. The weakness of the group's capital position led to a large rights issue in the spring of 2014 and an undertaking to dispose of a number of underperforming business units. We re-engaged with both the Chairman of the Board and the Chairman of the Audit Committee in the wake of the rights issue to gain insights into the control and reporting environment

at RSA. The discussion focused on improvements that the group is applying to the management of risk and the oversight of its business lines. The content of the auditor's report for 2013 was also debated.

Outcome: The need to improve the level of disclosure by both the Audit and Risk Committees was acknowledged. The group is to upgrade its IT platform to improve efficiency.

Hellermann Tyton ●

Hellermann Tyton is a market leading global manufacturer and distributor of cable management, insulation, fastening and identification products. These are primarily used in the electrical and automotive markets, which account for over 90% of sales. The group was originally known to investors as Bowthorpe plc and following a period under private equity management it was re-listed on the London Stock Exchange in April 2013. It is a constituent of the FTSE 350 Index and achieved sales in 2013 of €538 million.

Action: As it continues to win share and grow the underlying markets with innovative products, Hellermann Tyton is undertaking a significant expansion of its production capacity. The board put in place at the IPO in 2013 is quite small and has a preponderance of financial over industrial experience. The tight-knit management team has been in place for a very long time. We met with the Chairman to discuss succession planning and board evolution.

Outcome: We were re-assured that robust succession planning arrangements were in place and the development of executives below board level, a priority. The need to broaden the base of experience among the non-executive directors was also discussed. We shall monitor progress.

Severfield ●

Severfield is the largest structural steel specialist in the UK and its products are integral to a number of iconic buildings in London, including the Shard, Tate Modern and the Olympic Stadium. It is a constituent of the FTSE Small Cap Index and reported sales of £231 million in the 12 months to March 2014. It has a large Indian joint venture, JSW Severfield Structures Ltd.

Action: The group was re-capitalised by way of a rights issue in early 2013 and, since that time, the board has been significantly refreshed including the appointment of a new CEO who has a background in construction markets. We engaged

- **Influential in achieving change**
- **On track to meet objectives**
- **Escalation candidate**

with both the Finance Director and recently appointed Chairman of the Audit Committee to discuss a re-tender for the external audit, as the incumbent has provided the service for 35 years. Given the risk control issues that gave rise to the need for further capital, the need for a high quality audit that took account of the complexity of the business and its markets was discussed. The assessments of long-term work-in-progress and the audit of the Indian joint venture, which is presently loss-making, were emphasised.

Outcome: We received assurance about the scope of the audit tender and of the objectives of the Audit Committee. The group also undertook to further invest in governance infrastructure to improve the board's efficiency and effectiveness.

Pfizer ●

Pfizer is a leading global pharmaceutical company, headquartered in New York. It has a market value of nearly \$200 billion and some of its best-known products include Lipitor, for the lowering of blood cholesterol, and Celebrex, an anti-inflammatory drug. The company has grown substantially over the past decade by a process of acquisition that included the purchase of Warner Lambert and Wyeth Healthcare. The group has also been involved in a number of regulatory and shareholder actions relating to the quality of its business practices. In 2014, Pfizer made an offer to acquire the UK-Swedish pharmaceutical firm AstraZeneca, a proposal that was subjected to intense and hostile scrutiny on account of the primary rationale for the deal, which was to optimise the tax arrangements of the combined entity.

Action: We met with the company to discuss the ways in which the board addresses some of the key risks facing the group. We also discussed the need for board refreshment and encouraged the company to review the necessity of combining the role of board Chairman and CEO. We emphasised that there were sound business and governance reasons for splitting the roles and pointed out that this was evolving as best practice for S&P 500 listed companies in the US. We also discussed remuneration and encouraged the company to adopt financial as well as share price measures of success. We also discouraged it from the adoption of a formal policy of interaction with stockholders in favour of a commitment to high quality engagement as circumstances dictated and the clear communication of the group's business values and practices.

Outcome: The company undertook to review the combination of the roles of Chairman and CEO and succession planning for the board committees. We shall monitor developments.

Afren ●

Afren is engaged in oil exploration, development and production in Africa and in the Kurdistan region of Iraq. It has a portfolio of assets that has grown both by acquisition and organically.

Board composition

Action: As we indicated in last year's annual review, we had serious concerns regarding the lack of board independence at Afren and were unconvinced regarding the suitability of a new non-executive director. We met with the Chairman, Senior Independent Director and the new non-executive director to explain our views and we abstained on the election of this director at the AGM in June.

Outcome: The company subsequently appointed a further new non-executive director with relevant industry experience and strong financial skills, who was also appointed as Chairman of the Audit Committee. We supported the election of this individual at the AGM. However, this did not fully address our concerns.

Ethics & values

Action: The company shocked the market with the announcement at the end of July that the CEO and COO were being suspended pending an investigation into the possible receipt of unauthorised payments. These had come to light as part of an investigation into whether a number of previous transactions should have been disclosed to the market. An independent law firm was appointed to investigate and has since reported to the board. The board has terminated the employment of the CEO and COO along with two associate directors.

Outcome: We were engaging with the board regarding how it planned to address the governance failings that this situation highlights, including strengthening the independence and skills of the board, strengthening internal controls, addressing the cultural issues arising, and, crucially, restoring trust among investors and other stakeholders. However, the company announced on 22 December 2014 that it was in discussions with SEPLAT Petroleum Development Company plc regarding a possible combination and, in January 2015, announced a review of its capital structure, liquidity and funding requirements. We intend to engage further once there is some clarity on these issues.

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

Vedanta Resources ●

Vedanta Resources is a global resources company, headquartered in the UK and involved in the production of zinc, iron ore, copper, aluminium, and oil & gas. The company was founded by Anil Agarwal, the current Executive Chairman and majority shareholder.

Board composition

Action: We have had ongoing concerns regarding board composition, in particular the need to appoint further independent directors with experience of UK-listed plc boards. We engaged with the Senior Independent Director, CEO and Company Secretary earlier in the year and were assured that board succession planning was being addressed.

Outcome: At the AGM in August, we decided to abstain on the re-election of the members of the Nominations Committee to express our disappointment at the lack of progress. However, on the day of the AGM, the company announced the appointment of a new non-executive director who, although she had not previously served on a UK board, had relevant experience and was independent. Her appointment also added to the diversity of the board which previously had no women directors. We therefore viewed this appointment as a positive development. We continue to encourage new non-executive appointments that will further strengthen the board.

Remuneration

Action: The company's remuneration policy contained a number of features that were not best practice and the disclosures in its remuneration report were not as clear as they could have been. At the AGM in 2013, we had voted against the remuneration report and against the re-election of the members of the Remuneration Committee. Early in 2014, the company consulted us on a revised remuneration policy and we met the Remuneration Committee to discuss this.

Outcome: We made some suggestions as to how the proposals could be improved, a number of which were incorporated into the company's remuneration policy. It was generally in line with best practice and we were able to support both the remuneration policy and the remuneration report at the AGM. Disclosures have also improved somewhat although we will monitor those in next year's annual report to ensure that this continues.

Micro Focus International ●

Micro Focus International is an international software and information technology company, headquartered in Newbury, Berkshire. It supplies software to serve business critical enterprise applications, particularly for updating legacy systems to more modern platforms.

Action: In terms of board composition, Micro Focus is unusual (in the UK) in having an Executive Chairman. In April, the board had committed to conduct an orderly succession to separate the roles of Chairman and CEO over the coming 12-24 months. In September, the company announced a merger with The Attachmate Group Inc, an enterprise software infrastructure business based in the US. This was a very significant deal and was received positively by investors. Following this announcement, we believed that the succession process should be accelerated given the need to have clear accountability and responsibility for delivery of the targeted integration benefits, and the need for the CEO to focus on running the company rather than also running the board.

At the subsequent general meeting, shareholder approval for the deal was conditional on the passing of a separate resolution to approve new incentive arrangements. As a matter of principle, we do not support linking shareholder approval of a deal with proposed remuneration arrangements in this way: shareholders should not be forced to accept new remuneration arrangements if they wish to support merger and acquisition activity. In addition, the proposed incentive arrangements had a number of elements with which we were not comfortable. In particular, additional share grants were based purely on total shareholder return with no financial underpin; the awards would vest fully on any change of control of the company; and the company was proposing to pay allowances as a means of increasing fixed pay from the time the deal was completed rather than conducting a full salary review at a more appropriate stage.

Outcome: We engaged with the company, including its Senior Independent Director, ahead of the general meeting. After detailed consideration, we decided to vote against the resolution to approve the new incentive arrangements. There was an important issue of principle at stake. The resolution was passed but received a significant 40% vote against. The company issued a statement that the board considered linking the resolutions to be in the best interests of shareholders but did not expect this to be a feature of any future M&A activity. We had discussed such a statement as part of our engagement with the company so took positive note of this. We had also asked the company to make a statement regarding the acceleration of board succession planning but they declined to do so. We intend to engage further on this issue.

- Influential in achieving change
- On track to meet objectives
- Escalation candidate

HSBC Holdings ●

HSBC Holdings is a global financial services organisation. It operates through four global businesses: retail banking & wealth management; commercial banking; global banking & markets; and global private banking.

Action: We were consulted by the company on proposed new remuneration arrangements. As part of these arrangements, the Remuneration Committee intended to make annual incentive awards to the Executive Chairman, stating that increasing regulatory challenges justified such awards. However, this was not consistent with the terms of his original appointment. We also noted that regulatory issues were expected to be a particular focus of the role and, as such, the role description in the annual report had not changed since his appointment in 2010. As a matter of principle, we questioned whether it was appropriate to provide such an incentive to someone who is responsible for relationships with regulators and governments, for maintaining corporate reputation, and for reviewing the performance of the CEO. The Committee subsequently proposed that the award would be of a one-off nature but its binding remuneration policy still retained the provision for further awards in future.

Outcome: We engaged further with the Chairman of the Remuneration Committee. We requested that the Committee remove any provision to make awards from the binding policy but it declined to do so. We therefore voted against the remuneration policy. The resolution received a 20% vote against at the AGM. We have engaged further with the company to underline our views and have received assurances that lead us to believe that the substance of our concerns have been addressed.

Royal Dutch Shell ●

Shell is a global group of energy and petrochemical companies, headquartered in The Hague. The parent company of the Shell group is Royal Dutch Shell plc, which is incorporated in England and Wales.

Strategy & performance

Action: We engaged with the company directly and through collective meetings on a number of topics throughout the year. Our own engagement was with the Chairman and Senior Independent Director through meetings and correspondence covering the board's effectiveness developing and overseeing the company's strategy, capital allocation and operational execution. In addition, we participated in a number of collective meetings with the Chairman, Deputy Chairman, Company Secretary, CEO and CFO. These meetings addressed issues relating to the company's strategy and performance and were convened at our suggestion.

Outcome: The Chairman and CEO gave commitments to improve performance, particularly through capital discipline. This was demonstrated in the cancellation of some projects, such as the Gas to Liquid plant in Louisiana and the possible sale of assets such as part of its operation in Nigeria. Although the company was not willing to publicly disclose specific performance targets, it confirmed that a new performance reporting structure had been put in place to improve reporting to the board and bring greater clarity to executive management performance.

Remuneration

Action: We had concerns regarding the amount of bonus payments made to executive directors in respect of the 2013 financial year. Although the Remuneration Committee had exercised discretion to reduce these payments, we were unconvinced that the resulting amounts were appropriate. We engaged with the company on this issue, including a meeting with the Chairman of the Remuneration Committee.

Outcome: We received assurances regarding our expectations of the rigour with which the Remuneration Committee would apply any discretion in the future. Therefore, we decided to abstain on the vote to approve the Remuneration Report at the AGM. We also requested that, going forward, the Remuneration Report contain an explanation of how the Remuneration Committee evaluates the underlying financial performance of the company.

Focus on Change

- ▶ **Impact of the UK Stewardship Code** – evidence suggests the Code is having a positive impact on engagement in the UK. There are a growing number of similar Codes overseas but the impact of these is, as yet, unclear.
- ▶ **Audit tender** – given new regulatory requirements, an increasing number of companies are tendering their audit. This is a positive development though poses resource challenges for the audit firms. Where we are major investors, we are keen to have a dialogue with the company on the process and outcome.
- ▶ **Engagement overseas** – finding an effective mechanism for engaging overseas remains a challenge. As well as engaging on a one-to-one basis, collective engagement may prove a useful option to address more systematic issues.

Global voting

During the year, we continued to represent the best interests of our clients when voting the shares we manage on their behalf at company general meetings. When we vote against or abstain on resolutions in the UK we will generally contact the companies concerned ahead of the meeting to convey our views and explain our decision. We also do this for our larger holdings globally on a case-by-case basis. We use our votes to hold boards to account, engaging when necessary.

We have now published our Regional Voting Guidelines covering all major regions of the world where we invest on behalf of our clients. These guidelines make reference to our overarching Governance & Stewardship Principles and Policy Guidelines which were approved by the board of Standard Life Investments (Holdings) Limited in 2013.

Key areas when voting this year have been board composition, mergers & acquisitions, pre-emption rights, auditors, and remuneration.

In Scandinavia, we have seen a number of resolutions requisitioned by private shareholders onto company AGM agendas that were either irrelevant to the interests of our clients as shareholders or sought to micromanage the companies concerned. We have supported the recommendations of the boards of these companies in opposing these resolutions.

In Europe, remuneration-related resolutions are becoming more common, particularly in France and Switzerland where there are now resolutions seeking shareholder approval of remuneration policies and their outcomes on most company AGM agendas.

In Asia, we noted that it is becoming more common for shareholders to be given a vote on important matters such as mergers & acquisitions and related-party transactions.

Amendments to UK listing rules

The new listing rules relating to companies with a controlling shareholder came into force in May 2014. They apply to companies with a premium listing. Companies with controlling shareholders are now required to seek, inter alia, separate approval from independent shareholders for the re-election of non-executive directors as well as approval by shareholders voting as a whole. We hope that this will lead to an improvement of accountability in such companies.

UK binding vote on remuneration

We were consulted by companies throughout the year on their remuneration policies. The number of these consultations increased markedly towards the end of 2013 as companies anticipated the introduction of new UK legislation during 2014 that would give shareholders a vote on remuneration policy that is binding for the next three years.

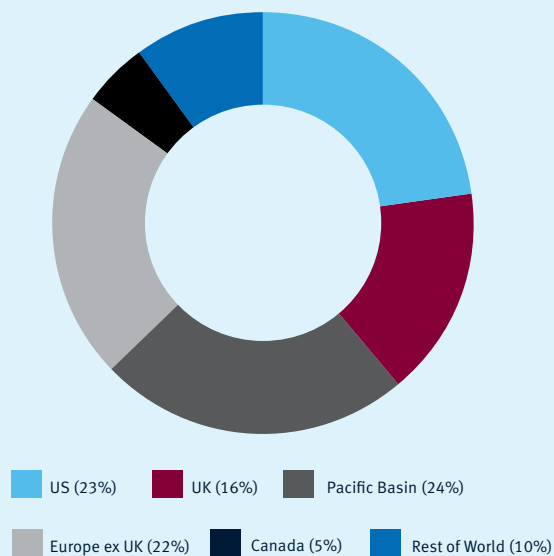
On its implementation, there was, at first, some debate among companies and shareholders about how much flexibility companies would factor in to these new policies. In response to this issue, the Investment Association (IA) engaged with some early adopters of the new requirements to ensure they would be acceptable to institutional investors. The IA requested that some of these companies publish assurances prior to the shareholder vote about how the remuneration policy, if approved by shareholders, would be implemented.

There were a number of companies that, despite being constituents of FTSE indices, did not provide shareholders with a binding resolution on remuneration policy and instead, citing their offshore incorporation, provided an advisory resolution. We believe that significant companies that are members of UK indices should seek to comply with UK law in this respect, even if based offshore, and we are aware of a number of UK listed but offshore companies that already do this, such as Wolseley and Lancashire Holdings.

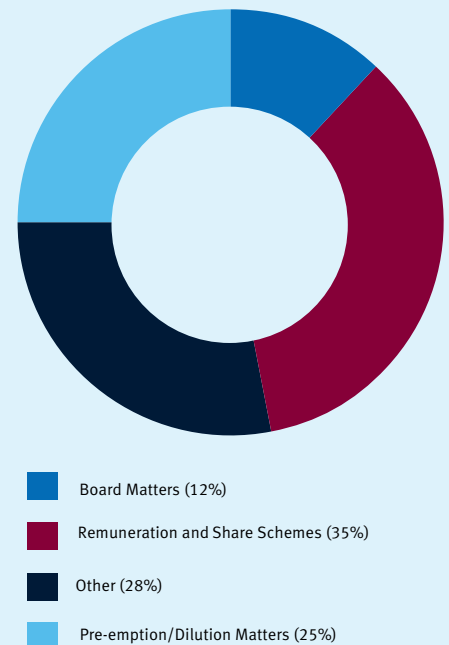
Voting summary 2014

Shareholder meetings at which the shares we manage on behalf of our clients were voted	1633
Number of resolutions voted	20,438
Shareholder meetings at which the shares we manage on behalf of our clients were voted against management recommendations on one or more resolutions	356
Number of resolutions voted against management recommendations	907
Shareholder meetings at which the shares we manage on behalf of our clients shares abstained on one or more resolutions	167
Number of resolutions abstained	295

Geographical Breakdown of Votes Against Management Recommendations*



Reasons for Votes Against Management Recommendations*



Source: Standard Life Investments

*Excluding Japan

We have excluded Japanese votes against management recommendations from the tables as the figures are disproportionately high when compared to other geographical regions and also when compared to other reasons for votes against. This is due to our high instances of votes against board matters in Japan. The issue that dominates the Japanese market is board independence. Although efforts are being made by many investors and corporate bodies to effect change, independent representation on Japanese boards remains low when compared with the UK and US markets. It is our policy in Japan to vote against director elections in situations where the board does not have at least two unaffiliated outsiders, although we will not vote against key executives or independent directors. In 2014, the shares we manage on behalf of our clients were voted against management recommendations on 296 resolutions at Japanese shareholder meetings. Of these resolutions, 92% of votes against management recommendations related to director elections.



Focus on Change

Having voted the shares we manage on behalf of our clients globally for the last five years, we are now voting at over 1,600 shareholder meetings per year and are also seeing an increasing number of agenda items. Data from Institutional Shareholder Services shows that the average number of resolutions per meeting in Europe has increased from 12 in 2009 to 14 in 2014. In addition, we are seeing more shareholder-sponsored resolutions. These have been a feature in the US for some time but we are increasingly seeing these in Europe. Many relate to requests for action on specific issues. Where these relate to environmental and social issues, our responsible investment team will carry out a review to inform our voting decision.

Voting highlights

Barclays

Against the background of poor performance and a substantial rights issue, the company paid increased bonus levels in the investment banking division during 2013 compared with 2012. This resulted in an increased compensation-to-net-income ratio despite Barclays' stated target of reducing this over time. Although we appreciate there were competitive pressures on the investment banking business, we were unconvinced that the amount of the 2013 incentive pool was in the best interests of shareholders. In particular, we considered how the bank's profits were divided among employees, shareholders and for capital retention.

We therefore instructed our proxy to vote against the remuneration report resolution. In addition, we attended and spoke at the AGM to express and reinforce our views publicly.

Burberry

Burberry consulted with us on the introduction of a new incentive scheme. Following interaction to bring the scheme to a near acceptable format, the company subsequently revised it into one less acceptable. The revised scheme included high reward levels for achieving only threshold performance and a degree of discretion for the Remuneration Committee with which we were uncomfortable. During this process, the CEO of the company left and the successor combined the roles of CEO and Chief Creative Officer. We were disappointed that we were not consulted on the remuneration arrangements put in place for the new role. These included a significant one-off incentive award based solely on retention, another based on undisclosed strategic objectives and a very substantial cash role-based allowance. These developments served to compound our concern that the overall remuneration policy and its implementation lacked sufficient emphasis on performance-related pay and transparency.

At the AGM, we voted against the new incentive scheme, the remuneration policy and the remuneration report. We also voted against the re-election of the Chairman of the Remuneration Committee and abstained on the re-election of the other members of the committee to reinforce our concerns. The remuneration report resolution was voted down by shareholders. Burberry has subsequently re-engaged with us and discussions continue.

Glencore

Following the merger of Glencore and Xstrata in 2013, the Interim Chairman was tasked with finding a new Chairman. After a lengthy and unsuccessful search, he passed this responsibility to the Chairman of the Nominations Committee. We were disappointed that the Interim Chairman was then in turn appointed company Chairman.

We took the view that while this outcome was not consistent with our views conveyed to the company, it was within the gift of the new Chairman to prove he was the right person for the role. We shall monitor his performance.

Taking this into account, we abstained on the re-election of the new Chairman and that of the Chairman of the Nomination Committee.

Implenia

The Swiss company sought shareholder approval for its remuneration report. However, we were aware that it had paid significant ex-gratia payments to two directors without explanation. We are opposed to such payments in principle.

We therefore instructed our proxy to vote against this resolution.

International Consolidated Airlines

This company is listed in Spain and the UK. Having met with the Chairman during 2014, we received an assurance that a binding resolution on remuneration policy would be provided for shareholders to vote on at the AGM. As it is incorporated in Spain, the company is not required to do this. On reviewing the annual report, we were therefore concerned to learn that the company had not submitted its remuneration policy to a binding vote. We contacted International Consolidated Airlines to make it aware of our concerns and it confirmed that its legal advice indicated that as it was incorporated in Spain any vote on remuneration policy would not have been 'binding' in law.

We believe that the company could still deem itself to be bound by a shareholder vote and we therefore abstained on the re-election of the Chairman of the Remuneration Committee to underline our concerns.



Ryanair

In 2013, we voted against the introduction of a new share incentive scheme. On reviewing the annual report disclosures this year, we were mindful that no executive directors had received awards under the scheme. However, the company awarded its CEO a salary rise during the year and did not provide a satisfactory explanation for this. This was the first year that the company had presented a remuneration report resolution to shareholders.

Taking all these factors into account, we abstained on the resolution to approve the remuneration report and communicated our views and expectations to the company.

Samsung Engineering

We were concerned by a proposed merger between two South Korean companies, Samsung Engineering and Samsung Heavy Industries. We would have preferred to see further progress made by Samsung Engineering as a separate company for the next couple of years. In addition, we felt that in proposing this transaction as a merger rather than a takeover, the shareholders in Samsung Engineering would not receive an appropriate premium.

As proposed, the merger was not in the best interests of our clients and we therefore voted against it.

Influencing governance change

One of the key roles of the governance & stewardship team is to influence public policy and practice as it relates to corporate governance and stewardship. As well as influencing change at individual companies, we allocate significant resource to representing our clients' best interests in the formation of public policy and regulation.

UK

We are involved with the Governance and Engagement Committee of the Investment Association (IA), previously the Investment Committee of the Association of British Insurers (ABI). This allows us to provide views and input into the IA on various policy topics, including:

- ▶ Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA) changes to banking remuneration and senior management regime
- ▶ FCA changes to the rights of minority shareholders, as reflected in revised listing rules
- ▶ Take Over Panel changes to lock up requirements and pre-takeover announcements.

In addition to the collective input through the IA, we interacted with policymakers and opinion setters on various aspects of governance and stewardship in the UK. We have listed some of the interactions below.

- ▶ The publication and promotion of a joint paper with Tomorrow's Company, a leading UK thought leadership firm, entitled 'Building Momentum for Effective Investor Stewardship'*. This paper presents improvements to the actions of asset owners and managers that will strengthen engagement with companies. Although the UK Stewardship Code has led to improvements in engagement and is held as a shining example of its type around the world, we believe there is still work to be done.
- ▶ We took part in various forums to debate topics such as the importance of 'one share one vote', the development of the UK pension fund industry and the impact of the move to defined contribution (DC) schemes on shareholder engagement, the future of 'comply or explain', the responsibility of boards for corporate culture and the role of business in society.

* www.tomorrowcompany.com

Europe

In Europe, activities focused on proposed changes to the Shareholder Rights Directive (SRD) issued by the European Commission. We also continued to build relationships with the various policy and legislative organisations, the representatives of wider stakeholder groups and our counterparts at other leading European financial services firms who play an active role in governance and stewardship.

In our view, the proposed changes to the SRD are generally positive and designed to increase engagement between shareholders and companies through increased transparency requirements for asset owners and managers. They also introduce a binding vote on remuneration policies, which we believe has increased engagement in the UK, and improved the rights of shareholders in relation to related party transactions. As well as contributing to the input by various industry associations to the consultation on the SRD, we prepared and published our own views. This was because we felt more supportive of certain aspects of the changes than those reflected in the submission by industry associations.

Germany

We had particular concerns around the transparency surrounding the Supervisory Board nomination processes employed in Germany. We therefore met with the German Code Commission to discuss our concerns. We found it very willing to listen to our point of view, which we hope will receive positive consideration in their ongoing deliberations.

Japan

We engaged with the Japanese Financial Services Authority (FSA) to reinforce preferred aspects of the development of the new Stewardship Code in Japan. This engagement was done collectively with other large investors through letters to the FSA and interaction through the Asian Corporate Governance Association (ACGA).

India

The government and regulators in India have identified that, in order to attract additional overseas investment, it is necessary to improve corporate governance. They have therefore implemented changes to their Companies Act and listing regulations. We travelled to India in conjunction with ACGA and engaged with key Indian companies and the regulators to share our experience in the UK and explain our expectations of engagements by investee companies with us as investors. We believe that these discussions demonstrated a significant change in the approach of Indian companies to corporate governance and their interaction with investors.

Accounting and auditing

As investors, the accounting, auditing and financial reporting practices of companies are critically important to our investment analysis. In the post-financial crisis world, accounting, auditing and financial reporting have continued to be areas of considerable focus globally.

We wrote to the International Accounting Standards Board providing input to the development of their ‘conceptual framework’, which they are using as the basis for the development of International Financial Reporting Standards (IFRS). We also took part in various forums to present our views on IFRS changes, the role of the auditor and its importance to investors, tendering and rotation of auditors, and changes to the statutory audit proposed by the Department for Business Innovation and Skills and the Financial Reporting Council (FRC) in the UK.

We believe that the quality of UK audit reports is improving following the implementation of the new audit report standards by the FRC in 2013. This has been a good demonstration of using

relatively high level principles and guidance that allow the development of best professional practice. It is evident that this has led to audit firms ‘competing’ to be seen as providing the most informative report. We continue to be concerned with the structure of the audit market in the UK and are not convinced that the changes put in place in relation to tendering and rotation will lead to increased choice and higher quality audits.

‘Long termism’

This investment concept has attracted much attention since the financial crisis. The behaviour of asset owners and asset managers is seen as encouraging companies to overly focus on short-term performance, failing to allocate investment to small and medium-sized companies requiring long-term investment and failing to invest in the longer-term infrastructure projects required to stimulate economies. We have engaged in discussions on this subject in the UK, Europe and further afield. We have communicated our views on the important role played by corporate governance in providing an appropriate framework for companies and their boards to take a longer-term perspective and deliver a successful, sustainable strategy. As an investor, it is imperative to us that companies deliver value over the long term. Therefore, this work is an important aspect of being able to enhance the ongoing performance of our clients’ portfolios.

In 2014, we saw a continuation of the diverse changes occurring globally in governance and stewardship. We endeavour to focus on those aspects that will deliver value to our customers.

Looking forward

We believe that much of the policy and practice changes already described in this review have some way to run and there will continue to be a focus on the roles played by asset owners and asset managers in holding companies to account. This is predicated on the view that companies, particularly banks, contributed to the financial crisis through an inappropriately short-term focus and that the demands of asset owners and managers had a role to play in this.

Policy makers will sharpen their scrutiny of how the key players behave in fulfilling their responsibilities and our clients' expectations are evolving purposefully. We already vote all of the shares for which we are responsible in all global markets and our engagement is beginning to embrace companies further afield than the European Union.

Views regarding the impact of risk factors, such as governance, environmental and social, on companies' long-term value, and therefore the performance of investment portfolios, are developing over time. We believe this will influence the expectations of our clients in relation to our engagement with investee companies around the world.

The UK will continue to be a key market for us and we will set out to play a major role in the development of governance and stewardship policy and standards in the UK as well as promoting and delivering the requirements of the UK Stewardship Code in order to mitigate risks within our clients' portfolios. We believe that we are at the forefront of investor engagement on governance and stewardship matters in the UK and it is important for us to continue as such.

The development of governance and stewardship practices and policies globally is gathering momentum. We will engage at policy level as well as increasingly with individual companies where the size of the holdings we manage for our clients is increasing. We have therefore put in place plans to build out the processes we use in the UK for voting, engagement and client reporting. The implementation of these plans has just begun but over the coming years we shall progressively increase our involvement outside the UK in order to address the risks in our non-UK holdings.

These developments are important, but they will be challenging. Many of the markets in which we invest are starting from a low level of professional governance and stewardship, and raising their standards will take some time. Progress in this direction is, however, supported by the practices and policies that are now being developed in a number of markets.

The stewardship engagement agenda continues to evolve and, as active investors, we shall progressively increase our focus in 2015 and beyond on succession planning, values and business practices, and audit quality.

Responsible investment

While the trend within the investment industry is towards establishment of a singular environmental, social and governance (ESG) function, we believe there is merit in developing distinct skills and expertise within both areas of responsible investment and governance and stewardship. Consequently, Standard Life Investments has a responsible investment team (environment and social issues) and a governance & stewardship team (governance matters).

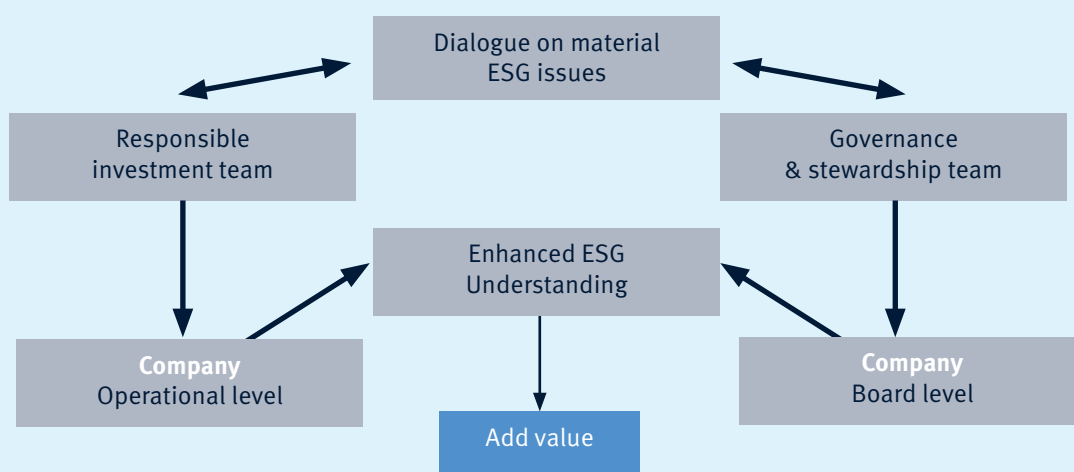
Two dedicated resources

These two teams each require a different set of skills to understand the approach to two very different, although complementary, parts of a company's structure and business. The focus of the governance & stewardship team (established in 1992) is on board oversight and the governance framework within which companies operate. This includes how a company is governed, the development and delivery of strategy, board composition, remuneration, audit issues and voting at shareholder meetings.

In contrast, the focus for the responsible investment team is on environmental and social operational issues affecting our investee companies. The team examines board policies, such as those relating to health and safety, anti-corruption and the environment. It

explores how these policies are implemented in practice, normally involving discussion with the CEO and senior management. This allows a fuller understanding of whether the tone set at the top of a company is being embedded throughout the business.

Having two different access points to a company offers Standard Life Investments better insight into the quality of company management. The key objective is to ensure these conversations are shared and where both teams have concerns, there is an ability to work together to encourage better corporate behaviour. In addition, having these conversations at different levels of the business provides a superior understanding of a company's risks. This is the value that these teams add to the investment process.



Regular dialogue

These two teams regularly share information. Once a week, members of the responsible investment team attend the governance & stewardship team's morning meeting. This provides a forum to share information on engagement and current ESG trends and identify areas of mutual interest. In addition, the heads of both teams meet bi-monthly to discuss wider strategic issues. There are regular communications on forthcoming meetings and participation in a number of joint engagements.

Voting on environmental and social issues

The responsible investment team has worked closely with the governance & stewardship team to develop a policy on voting on all environmental and social resolutions lodged at company AGMs and EGMs. While the governance & stewardship team conducts all voting on our funds, the responsible investment team has in-depth knowledge and expertise on environmental and social matters. This information is fed into the

process to ensure we have given due oversight regarding a company's policies and activities and can make informed judgments on the validity of these resolutions. Hence, there is a formal process of identifying, assessing and voting on these resolutions.

For further details about our approach to responsible investment, please visit our website

www.standardlifeinvestments.com.

Visit us online



standardlifeinvestments.com

Important Information

All information, opinions and estimates in this document are those of Standard Life Investments, and constitute our best judgement as of the date indicated and may be superseded by subsequent market events or other reasons.

This material is for informational purposes only and does not constitute an offer to sell, or solicitation of an offer to purchase any security, nor does it constitute investment advice or an endorsement with respect to any investment vehicle. Any offer of securities may be made only by means of a formal confidential private offering memorandum. This material serves to provide general information and is not meant to be legal or tax advice for any particular investor, which can only be provided by qualified tax and legal counsel.

This material is confidential and is not to be reproduced in whole or in part without the prior written consent of Standard Life Investments.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Standard Life**. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Standard Life** or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Past performance is no guarantee of future results. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

**Standard Life means the relevant member of the Standard Life group, being Standard Life plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Standard Life Investments Limited is authorised and regulated in the UK by the Financial Conduct Authority.

Standard Life Investments (Hong Kong) Limited is licensed with and regulated by the Securities and Futures Commission in Hong Kong and is a wholly-owned subsidiary of Standard Life Investments Limited.

Standard Life Investments Limited (ABN 36 142 665 227) is incorporated in Scotland (No. SC123321) and is exempt from the requirement to hold an Australian financial services licence under paragraph 911A(2)(l) of the Corporations Act 2001 (Cth) (the 'Act') in respect of the provision of financial services as defined in Schedule A of the relief instrument no.10/0264 dated 9 April 2010 issued to Standard Life Investments Limited by the Australian Securities and Investments Commission. These financial services are provided only to wholesale clients as defined in subsection 761G(7) of the Act. Standard Life Investments Limited is authorised and regulated in the United Kingdom by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws.

Standard Life Investments Limited, a company registered in Ireland (904256) 90 St Stephen's Green Dublin 2 and is authorised and regulated in the UK by the Financial Conduct Authority.

Standard Life Investments (USA) Limited and Standard Life Investments (Corporate Funds) Limited are both registered as an Investment Adviser with the US Securities and Exchange Commission.

Calls may be monitored and/or recorded to protect both you and us and help with our training.

www.standardlifeinvestments.com © 2015 Standard Life, images reproduced under licence

INVBGEN_12_0665_Corporate_Governance_Activity_Report_TCM 0215

standardlifeinvestments.com