

UK Corporate Governance and Corporate Engagement policy, and the UK Stewardship Code.

SVG Investment Managers and responsible investment

We believe that the majority of techniques employed by successful private equity investors can be transferred either directly or indirectly to the public markets. By doing so, we believe it is possible to generate superior returns for investors over the long term.

The distinguishing difference between the governance of public and private companies is the distinct separation of ownership and management in the public sphere. Fully understanding the ramifications of this split of responsibilities, and managing the risks it creates, increases the probability of achieving investment success. Thus promoting effective corporate governance becomes a core part of our fiduciary responsibility to our clients.

We believe that institutional investors have a responsibility to hold the management of investee companies accountable for the performance of those companies on behalf of their clients. As a manager of concentrated portfolios, the ownership rights of SVGIM's clients can often have a significant influence on the strategy and policies of the public companies in which we invest.

Constructive corporate engagement can significantly enhance the creation and preservation of long term value for shareholders of publically quoted companies. As a result we actively seek opportunities to engage where we believe doing so will benefit our clients.

Corporate Governance

Measuring the effectiveness of a public company's governance is a core part of our pre-investment research process. We will typically seek to meet the non executive directors as well as key executives of the companies in which we invest and, on occasion, middle managers. In some cases we will commission formal referencing of key individuals. We aim to understand the aspirations and motivations of key stakeholders in the company, including other institutional shareholders. Where we believe that the board structure, shareholder structure, executive remuneration policies or strategy are not aligned with shareholders interests we will either not invest, or lobby to get them changed.

We strongly support the principles underlying the UK Corporate Governance Code. While we believe that the vast majority of the specific provisions within the Corporate Governance Code are sensible, we are also sceptical of any overly prescriptive approach to corporate governance.

While the costs of complying with prescriptive governance codes are clearly quantifiable, and are always ultimately borne by the shareholders that they are designed to protect, there is limited quantitative data supporting the assertion that a tighter governance framework has in fact improved the performance of public companies.

It is worth noting that despite widespread adherence to the numerous codes that have been produced since the publication of the Cadbury Report in 1992, the last two decades has seen both some of the largest and most damaging governance failings of all time and substantially lower than average returns from the larger UK companies.

As a result we believe that a "box ticking" approach to corporate governance often allows public companies, and the financial institutions that monitor them, to achieve the appearance of fulfilling their obligations while avoiding genuine engagement that delivers measurable benefits to stakeholders.

We therefore adopt a pragmatic approach to adherence to the code, and consider explanations made in relation to the UK Corporate Governance Code on their own merits, taking into account the individual circumstances of each investee company.

While we do not expect all companies to adhere to all of our principles at all times, we detail below the ideal governance structure fully matches our investment criteria.

Our Corporate Governance Principles

Board Composition

- The number of non-executive directors should at least equal the number of executives.
- There should be a split between the role of CEO and Chairman.
- In the case of smaller companies where significant strategic change is taking place there is a case for an executive Chairman role to be established as a temporary measure.
- The role of the Senior Independent Director is becoming increasingly important in ensuring good governance. All Boards should appoint a Senior Independent Director who should be available for communication with shareholders independently of the chairman and the executive directors.
- The Senior Independent Director should formally review the performance of the Chairman in consultation with shareholders on a periodic basis.
- The head of the audit committee should be a qualified accountant and, where possible, have practical experience of senior financial roles in a corporate environment.
- We support the annual re-election of directors which we believe should be adopted by all plcs regardless of size.
- Except in exceptional circumstances non executives should serve for a maximum of nine years.

Public company's strategy

- Corporate strategy should be communicated clearly to all shareholders.
- Boards should involve all significant shareholders in the determination of group strategy and changes in strategy or direction should only be made after consultation with key shareholders.
- Boards should disclose and publish consistent and quantifiable metrics by which they believe the delivery of this strategy can and should be measured.

Executive Remuneration

- Remuneration structures should align executives and shareholders' interests as closely as possible.
- Incentive schemes should extend beyond the executive directors to all key executives
- Remuneration should be set against clearly identifiable milestones which are aligned to the company's strategy.
- Packages should be heavily performance based and competitive when compared to private equity style packages
- We favour long term Total Shareholder Return ("TSR") based schemes which reward executive management a proportion of the absolute value created for shareholders beyond a well considered hurdle rate and over a defined time period.

Capital Structure and allocation

- Our overriding principle is that the predominant concern of the board should be the preservation and growth of shareholders' capital over the long term.
- Share buy-backs are a legitimate and effective means of growing earnings per share while providing a cash return to share holders.
- All companies should aspire to paying dividends and, in the absence of a stated dividend policy, should set out the reasons for not paying a dividend.
- Capital allocation decisions should be made based on risk-adjusted cash flow return on invested capital criteria which should be applied consistently across the group.
- Boards of public companies should also address the company's capital structure on an ongoing basis.

- We do not support the right of public companies to issue equity without pre-emption rights for existing shareholders.
- Where companies request the authority to issue more than one third of their existing equity in such a manner we will vote against such resolutions.

Shareholder communications

- Shareholder communications should be open, regular and consistent.
- Shareholders should be given the opportunity to visit company premises and to meet senior executive employees who may not be board members.
- Shareholders should at all times have access to the chairman, senior non executive director and other non-executive directors.

Documents and circulars

- All documents, presentations and circulars should be made available on a company's web-site as soon as reasonably practicable after the issue thereof.
- Shareholders should be able to access document archives from the company's web-site.

Our corporate engagement policy

We do not believe that it is the role of institutional investors to manage the companies in which they invest; however there is considerable scope for investors in public companies to enhance the long term value of their portfolio companies through constructive corporate engagement. We look to support management teams that have a clear strategic agenda to drive shareholder value.

Communication

Our aim is to create an open dialogue and to work with management teams to formulate and execute a chosen strategy. The key areas we would expect to discuss with management include.

- **Company strategy:** We aim to obtain a clear understanding of a company's strategy before we invest. We will, where appropriate, seek to help companies in the formation and execution of their strategy. We can help companies to achieve their strategic ambitions actively in a variety of ways, such as introducing new capital shareholders, advisers, consultants or industry counterparts, giving advice directly or in any other way which is helpful.
- **Mergers and acquisitions:** Where we are a material shareholder, we would expect to consult with management teams on any material acquisitions in advance of their execution. We expect early consultation, being made insiders for extended periods of time where necessary. We believe this is advantageous to the company as we can add value by giving early commitments to support transactions and/or to cornerstone fundraising.
- **Remuneration:** We will actively promote and support incentive packages which align interests and reward success. We regularly consult with boards and will put forward specific proposals which follow the best principles of private equity style packages. Conversely, we will oppose incentive arrangements that do not closely align management and shareholder interests.
- **Board Issues:** We will discuss board composition with our investee companies and, where appropriate, introduce people who might be effective members of the board. Where it is clear from communications with other shareholders that a member of the board is not well regarded, we will communicate that and, if necessary, take action to remove that individual.

We are willing to be made insiders for prolonged periods if we can enhance shareholder value by doing so.

Monitoring

Our investment process includes regular monitoring and review of portfolio companies. We monitor them through a variety of different methods.

- Meetings with executive directors: We aim to converse with executive directors on a regular basis to discuss strategy and progress. We anticipate that face to face meetings will usually take place at the time of results and interim announcements.
- Meetings with non executive directors: Particularly in the case of companies where we have significant shareholdings we aim to converse with non executive directors on a regular basis to discuss issues including, but not limited to, executive performance and remuneration. Typically our meetings will be with the chairman, the Senior Independent Director, or the head of a relevant board committee.
- Documents, annual reports and other shareholder communications: We review all significant documents produced by companies and will challenge management on any actions they take which deviate from the announced strategy. We expect management to set benchmarks, use KPI's to monitor progress and to report regularly on how the business improvement initiatives are progressing. Our focus is on disclosure which enables a clear understanding of the underlying business performance and prospects rather than disclosure which purely aims to meet technical or legal requirements.
- Internal records: We maintain our own records of meetings and prepare bespoke research on all the companies in which we invest. Our internal documents set out milestones for delivery and we review the performance of our investee companies against these milestones.
- Benchmarking: we will benchmark the performance of our investee companies against appropriate industry peers and, where performance is below industry norms, will challenge management to improve the business.
- Ongoing due diligence: We seek to communicate with customers, suppliers, competitors, consultants and other industry participants in order to remain up to date with relevant industry trends and to be able to make an informed assessment of management's performance.

We do not typically attend the General Meetings of companies in which we have a major holding. We believe that General Meetings are an inappropriate forum for discussion of potentially sensitive issues regarding governance and strategy and that physical attendance at General Meetings is highly unlikely to be of benefit to our clients or improve the stewardship of investee companies.

Interventions

We believe that intervention is a useful tool for shareholder value creation and should not be restricted to situations where companies are underperforming or potentially distressed. We aim to intervene whenever we see an opportunity to add value by doing so. Whilst our intention is always for constructive and co-operative interaction with companies, we may, in certain circumstances, be compelled to intervene in a more adversarial manner in order to fulfil our fiduciary responsibilities to our clients.

There are a number of ways in which we work with and seek to influence the companies in which we invest. These include, but are not restricted to:

- Meetings with board members We will seek to hold meetings with board members, both executive and non-executive, from time to time. In certain circumstances we may work with boards and/or other shareholders to strengthen or change board composition..

- Written communications: In certain circumstances we will make written presentation to investee companies to present our thoughts. We may also write to the Chairman, Chief Executive, Senior Independent Director or other board members.
- Public Statements/press: Our policy is to engage privately with companies in which we invest. In limited circumstances, however, we may make public statements or speak to the press either to support a company message, or in very limited circumstances, to gain public support for some change initiative.
- Expressing concern through the company's advisers
- Speaking to the market regulators regarding our concerns
- Resolutions and shareholder meetings: If all other avenues are exhausted and we feel that our only means of protecting our clients' interests is by proposing a shareholder resolution for some form of action, we will garner support of other shareholders and, provided there is broad-based support from other shareholders, we will call a shareholders' meeting and propose the necessary resolution.

Voting

We believe that the exercise of voting rights by shareholders is the fundamental expression of the democratic "one share one vote" ownership of public companies. We believe that shareholders have a responsibility to vote at shareholder meetings and we will endeavour to ensure that the votes of our underlying funds are always cast. We aim to ensure that we are well enough informed on the relevant issues so as to be able to exercise good judgement in our voting.

- We aim to vote all of our holdings on a best endeavours basis.
- In overseas markets we aim to vote where we are able to do so within our current voting infrastructure.
- For pragmatic reasons we do not publish our raw voting records, but we will always disclose our voting records on request.
- If you would like to see our voting records for any particular company or fund please contact the Head of Operations of SVGIM.

Our voting is typically executed on our behalf by proxy voting services.

Communication with other shareholders

We seek an open dialogue with fellow shareholders and openly share our views on matters relating to investee companies. We strive to achieve a consensus between shareholders and management on all strategic issues.

- Shareholders wishing to discuss any company in which SVGIM invests, or may consider investing in should, in the first instance, contact the CEO of SVGIM.

The UK Stewardship Code

The UK Stewardship Code is overseen and published by the Financial Reporting Council, the independent regulator overseeing financial reporting, accounting and auditing and corporate governance. The Code, published in 2010, sets the benchmark in the UK for institutional investors to meet ownership obligations in respect of their holdings of publically quoted equities.

The specialist nature of our investment process means that in many cases the extent of our engagement with investee companies will materially exceed the levels described by the UK Stewardship Code. We largely support the UK Stewardship Code, which we believe is a step in the right direction. We comply with its principles and the majority of its recommendations. Where we do not comply explanations are given below.

Principle 1: “Publicly disclose their policy on how they will discharge their stewardship responsibilities.”

- Fully compliant, disclosed above.

Principle 2: “Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.”

- Fully compliant.
- SVGIM does not currently invest in the shares of its parent company, or manage money on behalf of quoted companies in which it is likely to invest. Were such conflicts to arise in the future these would be covered by our conflicts of interest policy and monitored by our compliance department.

Principle 3: “Monitor their investee companies.”

- Partially compliant, disclosed above.
- In general we believe that the standard of our monitoring practices are significantly more stringent than those recommended by the FRC, however we are unclear as to why the Stewardship Code has recommended physical attendance at General Meetings.
- We maintain a clear audit trail of our voting and meetings with companies. We disagree with the view expressed in the Stewardship Code that voting against management should require specific explanation. We believe that management should be encouraged to put forward contentious proposals, and shareholders should feel no compulsion to vote with management.

Principle 4: “Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.”

- Fully compliant, disclosed above.

Principle 5: “Be willing to act collectively with other investors where appropriate.”

- Fully compliant, disclosed above.

Principle 6: “Have a clear policy on voting and disclosure of voting activity”.

- Partially compliant, disclosed above.

Principle 7: “Report periodically on their stewardship and voting activities”.

- Partially compliant
- We disclose information on our stewardship and voting activities to our clients upon request.
- Our engagement and voting processes are not currently independently audited.