

UK STEWARDSHIP CODE

RESPONSE BY GENERATION INVESTMENT MANAGEMENT LLP

OCTOBER 2016

THE UK STEWARDSHIP CODE

The UK Stewardship Code (the “Code”) was published by the (UK) Financial Reporting Council in 2010 with the aim of enhancing engagement quality between asset managers and investee companies in order to help improve long-term risk-adjusted returns to shareholders. The Code provides a guide to areas of best practice to asset managers with its suggestions made on a “comply or explain” basis.

Generation Investment Management recognises the position of trust placed upon us by our clients and our fiduciary duty as stewards of our clients’ capital. We fully support the Code, applying its principles globally across our investments. We outline our response to the Code here and the ways in which we discharge our stewardship responsibilities.

Specifically it highlights:

- > How we monitor our investee companies;
- > How we integrate stewardship into our wider investment process; and
- > Our policy on voting and the proxy voting services we use to discharge our voting responsibilities.

We would welcome feedback on our response. For further information please contact:

Esther Gilmore esther.gilmore@generationim.com

Peter Harris peter.harris@generationim.com

PRINCIPLE 1: INSTITUTIONAL INVESTORS SHOULD PUBLICLY DISCLOSE THEIR POLICY ON HOW THEY WILL DISCHARGE THEIR STEWARDSHIP RESPONSIBILITIES.

Generation Investment Management LLP is a private, owner-managed partnership dedicated to long-term investing, integrated sustainability research and client alignment.

Our Mission is to:

- > Deliver superior investment performance¹ by taking a long term investment view and integrating sustainability research within a rigorous fundamental financial analysis framework.
- > Create long-term client partnerships by delivering unique investment insights and exceptional client service.
- > Attract, retain and develop the best professionals within a passionate investment culture, through a commitment to Our Core Values.

Our core business is the deployment of capital into global capital markets. We manage and invest assets on behalf of our clients through our investment strategies. We believe that sustainability considerations (including environmental, social, governance and long-term economic factors) can impact a company's ability to generate returns and therefore must be fully integrated with fundamental financial analysis for superior long-term investment results. We look to invest in companies and management teams that are well positioned for the long-term, and who manage the relevant and material sustainability opportunities and challenges they face. We recognise our responsibility to act as stewards of our clients' capital as a means of protecting and enhancing shareholder value. Our position as long-term shareholders and the interactions we seek with management teams underpin our process and allow us to identify, strengthen and deliver value to our clients.

Our investment analysts are responsible for maintaining constructive dialogue with investee companies, interacting with management teams on a regular basis and engaging them on topics that include relevant and material sustainability issues as well as traditional business-related matters. Stewardship and engagement with our portfolio companies across all levels provides us the opportunity to promote positive corporate behaviour, develop stronger long-term relationships and enhance our company-specific research.

The topics raised with management teams relate to any area identified as material to the business and sector in which it operates. In the Healthcare sector for example, these are ethical marketing practices, innovation, meeting real needs and the construction of clinical trials, while in the Financials sector, approaches to risk management, human capital and corporate culture take priority. Analysts may seek to engage management teams following public disclosures or on topics related to business strategy or corporate governance that arise as part of our investment process. We are fortunate to have developed good relationships with management teams and typically benefit from a two-way dialogue. It is not uncommon – given the sustainability focus of our firm - for management to seek our perspective on topics such as alignment or succession planning. In addition, we also seek to engage with a wide range of stakeholders as a way to monitor developments at investee companies.

A commitment to voting all of our proxies is a natural part of this process and we use ISS Europe Ltd. (ISS) as our proxy voting platform. Although ISS execute our proxy voting, we maintain full responsibility for our voting decisions and do not outsource our Stewardship obligations in this respect.

¹ Although Generation seeks to provide superior investment performance and attract the "best" professionals, potential investors should be aware that this is an aspiration and there is no guarantee that this goal will be obtained.

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.

Generation carries out its business in accordance with the highest standards of corporate governance, compliance and control. We are committed to paying due regard to the interests of our clients and managing any conflicts of interest fairly, both between ourselves and our clients and between clients. Senior management recognises that conflicts of interest may arise in our business and we have established a clear policy to manage these conflicts. We have implemented and maintain an effective conflicts of interest policy appropriate to our organisation and the nature, scale and complexity of our business.

We have identified the following principles of good practice which are fundamental to our successful corporate governance and management of any conflicts. These include:

- > Full commitment of senior management to conflict identification and management;
- > Business wide approach, including the full range of business activities of the firm;
- > Consistent treatment of conflicts of interest;
- > Provision of regular management information on the extent of, and mitigation of, conflicts of interest to senior management; and
- > Regular review of the types of mitigation we consider acceptable to address conflict risks.

We believe that identifying conflicts of interest is the first mitigating step to managing potential conflicts and we have sought to identify circumstances that we believe may give rise to a conflict of interest. We support this with clear lines of responsibility so all members of staff are aware of their role in the process. As a general rule we will typically seek to disclose an actual or potential conflict of interest as a method of managing a conflict, unless doing so will breach a legal or regulatory guideline or would not be in the interests of clients. An alternative approach when faced with conflicts which in certain situations may be appropriate is to refrain from acting.

It is important to recognise that each conflict situation is unique. We continue to review the specific issues relevant to our business and tailor our policies accordingly. As circumstances giving rise to conflicts of interests are dynamic; our responses need to evolve to reflect changes in market practices and client and investor expectations.

Generation takes the issue of conflict of interest very seriously and our mission statement founds our business on the premise our interests are fully aligned with those of our clients. As is standard in our industry, we have a conflicts of interest policy which explains how we manage conflicts and covers areas which include, but are not limited to, gifts and inducements, personal account dealing and client order aggregation and allocation. So for example, if Generation were to be in receipt of lavish corporate entertainment from brokers that provide services to our clients that clearly would be inappropriate. We log and limit gifts and entertainment accordingly. We make our conflicts of interest policy available to our clients and any other person who has legitimate grounds for reviewing it.

After due consideration, we do not currently make our conflicts of interest policy available to the public as it contains a number of hypothetical examples of conflicts which in practice are rather unlikely to arise and which we wish to be in a position to contextualise in a discussion with our clients or other interested parties if required. The media tends to extract information out of context and we wish to avoid that situation. An example would arise around the topic of aggregation of orders on behalf of clients. As is well known, this is a practice that is universal in the asset management industry and, typically, such aggregation works in a client's interest. However, that may not always be the case and we would not wish potential clients to become concerned by, or the media or other party to misconstrue, the hypothetical over the actual and for these reasons we would only disclose the policy in the context of an open dialogue to interested parties.

PRINCIPLE 3: INSTITUTIONAL INVESTORS SHOULD MONITOR THEIR INVESTEE COMPANIES.

To fully evaluate a company we regularly seek to meet with management teams from our global companies, as well as Board members (both independent and executive), and where applicable, the Board's Chairman. We also look to interact with third parties including suppliers, customers, industry specialists and other stakeholders where applicable. This dialogue is maintained while the company is on our Focus List, including times when it is not held in the portfolio. Topics discussed are chosen to help the analyst understand a company's long-term positioning and therefore may vary depending on the circumstances at the time. Broadly, topics may include executive compensation or other corporate governance structures, regulatory issues, capital allocation, or other strategic considerations.

During these conversions we generally avoid becoming "insiders" as we are conscious that this would impact our ability to effectively manage our client's assets. However, should circumstances warrant it, following advice from the firm's Generation Counsel and a discussion with the Senior Partner, a senior portfolio manager may become an insider. The key rationale in making this decision would be based upon the seriousness of the issue and the prospect of influencing a satisfactory outcome.

Corporate Governance is a key area we look at when evaluating the companies in which we invest. While it forms a useful data point, rather than assess companies against the UK Corporate Governance Code (the "Code"), we have developed our own internal criteria that form part of our quality assessments. Management teams that do not meet our quality thresholds are not admitted onto our coverage list. This rationale overlaps with the Code in many areas, such as favouring a separate Chairman and CEO. However the structure of our process allows us to take a bespoke approach, and consider a broad suite of factors, such as corporate culture, that are not explicitly measured by the Code. Further, we develop our insight into a management team and the way it operates through our engagement and primary research. The concentrated coverage of each analyst and access to management allows us to apply such a case-by-case approach to our analysis. This sometimes leads us to diverge from the recommendations of the Code if we are able to gain comfort over the quality of the management team against our internal framework. We consider this flexibility and ability to undertake our own research as critical to our ability to deliver returns to our clients. We are transparent with our clients on the approach we use and welcome client discussions on the topic of corporate governance. We also seek to use our regular reporting channels, such as our quarterly investor letter, to provide our perspectives on corporate governance topics, for example family-owned businesses.

We maintain a log of meetings held between investment team members and companies each year, and our proxy voting provider maintains a record of all votes cast. We do not as a matter of general policy attend company Annual General Meetings. We believe that our ongoing dialogue with management teams on a more intimate basis enables us to monitor and engage more effectively. We may however choose to attend Annual General Meetings on a case by case basis.

PRINCIPLE 4: INSTITUTIONAL INVESTORS SHOULD ESTABLISH CLEAR GUIDELINES ON WHEN AND HOW THEY WILL ESCALATE THEIR ACTIVITIES AS A METHOD OF PROTECTING AND ENHANCING SHAREHOLDER VALUE.

We have been fortunate to develop good long-term relationships with our investee companies, and feel that our views are considered seriously by senior management and boards.

If there was a particular issue where we felt a company was not managing its risks and or opportunities in a responsible manner, then we would then seek to engage in a more focused dialogue. Because we are investing in businesses and management teams of a high quality, the incidence of these types of discussion are in our experience infrequent. We generally seek to take a proactive role but are mindful about applicable regulatory considerations around such discussions. For example, should we be suggesting a change of board composition we would carefully consider the consequences and ensure there was no legal or regulatory impediment and such a change was in the best interests of our investors. We would note here the potential conflict between inadvertently receiving “inside information” that could cause us to have to restrict trading in stocks, and our fiduciary duty to our clients to have the maximum flexibility to trade their accounts in response to changing facts and circumstances.

We feel our constructive dialogue with management typically elicits satisfactory results, and we continue to find this process the most effective way to communicate our thinking on such topics. We are prepared, however, to take a more active stance where we feel the situation warrants such an approach, as noted, having regard to applicable regulatory considerations. Although rare, such instances may occur when a management team is unresponsive to repeated engagement over an issue which is material to our investment case. In such cases where we are unable to gain comfort over a particular issue we may choose to vote against management or even decide to sell our shareholding. Instances that cause us to sell our shareholding have most often occurred incrementally over time, where we have seen a gradual erosion in the quality of the business or management quality. Occasionally, the company will change its strategic direction in a way that is fundamentally contradictory to our view of a long-term, sustainable approach for the industry. In this regard, we pay close attention to capital allocation decisions.

Having regard to any potential conflicts of interests, all direct engagements with companies are typically shared within the Investment Teams both during daily team meetings and at specific investment process performance review sessions. Where appropriate we may also choose to share this information with clients.

PRINCIPLE 5: INSTITUTIONAL INVESTORS SHOULD BE WILLING TO ACT COLLECTIVELY WITH OTHER INVESTORS WHERE APPROPRIATE.

We seek engagement on an individual basis but, subject to careful legal analysis around “concert party”, “group” and related regulator issues, we consider collective engagements. There has been one issue which we felt collective engagement was appropriate. The issue posed a significant risk to a number of our focus list companies to the extent that we felt we could have more of an impact joining with other investors than if we were to act alone. We helped form a collective engagement group of investors via the UNPRI Collaboration Platform (formerly Clearing House), taking both a supporting and leading role. We continue to Chair the group today, and engage a wide range of stakeholders around the issue. We recognise that as participants in the capital markets we have an opportunity and responsibility to work with other investors to protect and enhance shareholder value in line with our collective clients’ best interests. As a firm, we support a number of initiatives which are focused on strengthening the integration of sustainability within capital markets.

PRINCIPLE 6: INSTITUTIONAL INVESTORS SHOULD HAVE A CLEAR POLICY ON VOTING AND DISCLOSURE OF VOTING ACTIVITY.

We take our responsibilities as shareholders very seriously. Our engagement with companies via constructive dialogue provides a means of enhancing and protecting our investments. In addition, the analysis of corporate governance directly informs our assessment of management quality, a key driver of strong long-term performance.

Of particular importance to this commitment is our interaction with management and approach to proxy voting. We are committed to voting all of our proxies and see being an engaged shareholder as an integral part of responsible ownership. Each analyst is responsible for reviewing the relevant corporate governance issues on a case-by-case basis and exercises their best judgment based upon their deep knowledge of the company. This is feasible because we manage concentrated portfolios, and view each proxy voting decision as an opportunity for analysts to gain additional insight into companies. As we apply a case-by-case approach to voting decisions, our internal voting policy acts only as a guide for analysts when thinking through the relevant corporate governance issues. Similarly, research reports provided by ISS are used primarily as an aid by analysts as they conduct their own research and the voting recommendations of ISS are not automatically adopted.

As discussed in Principle 4, we would look to discuss with management any situation where we felt there was a relevant and material issue that could impact our investment in their company. In some situations this could lead to instances where we vote against management. In these circumstances it is likely that our intention would have been communicated prior to the vote being cast.

Our proxy voting reports are available quarterly to our clients upon request. We believe this to be appropriate so as to avoid unintentionally influencing the voting decisions of others given the public nature of our holdings. We do not stock lend from any of the Generation pooled funds. Where our segregated account clients have made arrangements to stock lend from their own portfolios and have requested us to vote their proxies, and specifically in instances where we are choosing to vote against management, we can, on a best endeavours basis, work with their stock lending agent to recall lent stock in order to vote.

PRINCIPLE 7: INSTITUTIONAL INVESTORS SHOULD REPORT PERIODICALLY ON THEIR STEWARDSHIP AND VOTING ACTIVITIES.

As stewardship forms such an integral part of our investment process, this topic is frequently discussed with clients during investment review meetings. In addition, on an ad hoc basis, we will discuss specific topics of interest with clients arising from our engagement with our investee companies.

In terms of formal reporting:

- > Where there is a specific client requirement to provide voting records, these are provided on a quarterly basis;
- > For other clients, voting records are provided upon request. This includes a statistical summary of votes covering the number and type of resolutions voted and how. We will also provide a detailed report of each resolution voted. All reasons behind our voting decisions are documented internally by our analysts, and we will happily share these perspectives with our clients after voting has been executed.

Generation has obtained an independent assurance Opinion on our Stewardship and voting process. The scope of this Opinion includes assurance on our application of Principles 1, 2, 4, 6 and 7 of the UK Stewardship Code, in line with the AAF 01/06 framework. In addition an independent opinion is sought from our external auditors over our engagement and voting processes as part of the annual controls report prepared jointly under the ISAE 3402 and AAF 01/06 standards. The latest versions of these reports are available to clients upon request

Further, advocacy on topics of sustainability including responsible ownership is an important part of our business. Examples of the advocacy work we do can be found on our website:

<http://www.generationim.com/sustainability/advocacy/>