



Governance & Stewardship

Annual Review 2015



Standard Life
Investments

Foreword



This is our fourth Governance & Stewardship Annual Review. As well as explaining our approach to governance and stewardship, it provides an account of our activities during 2015 and our views globally.

During 2015, our Governance & Stewardship team developed its global engagement platform. This will help strengthen our global capabilities by ensuring that we focus our efforts on engaging with companies in an efficient manner. While it will take years, not months, to develop the enduring relationships that contribute to a mutual understanding of objectives, at Standard Life Investments we are committed to doing so. This will allow us to exercise constructive influence consistent with our clients' best long-term interests and our stewardship responsibilities.

Furthermore, we have strengthened our internal capability by providing our fund managers with corporate governance rankings on our research platform. This assists them in evaluating the corporate governance risk of companies, with a view to constructing investment portfolios that reflect the risk appetites of our clients.

Our Governance & Stewardship Principles and Policy Guidelines which were approved by our Board in 2014, and the Regional Voting Guidelines that support them, are unchanged. We are pleased that they stand the test of time successfully. We shall continue to apply our Principles and Guidelines in a professional, flexible and pragmatic way. By doing so, we

shall be able to hold the boards of our investee companies to account in an effective manner that is consistent with delivering attractive long-term investment returns to our clients.

In closing, I would like to pay tribute to Guy Jubb, our Global Head of Governance & Stewardship, who retires at the end of March after 30 years with Standard Life. Standard Life were one of the first to establish a separate governance team within the investment function. Our governance team was set up, under Guy's leadership, in 1992 and he has led the team ever since. Guy appreciated the importance of governance and stewardship before most other people, particularly in the early days, when it took patience and perseverance to build relationships with companies. His efforts have been crucial to the reputation and influence which Standard Life Investments enjoys in this area and he has made an important contribution to the public policy debate over the years, particularly with reference to audit and auditor standards. He has built a strong team and a governance capability which is a key contributor to the returns we generate for our clients. We wish him all the very best for his retirement.

Rod Paris
Chief Investment Officer
Standard Life Investments
February 2016

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Standard Life Investments in 2015

Standard Life Investments continued to expand its global footprint during 2015. We now manage assets worth £253.2 billion* and operate out of more than 20 locations 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 environment, we continued to deliver outstanding performance across a range of asset classes, adding to our excellent long-term track record.

Notable achievements in 2015

- ▶ Supporting our diversification agenda, we launched several new funds during the year. This included an Emerging Market Debt Unconstrained OEIC, various equity SICAVs (Global Emerging Markets, American Unconstrained, Japan High Alpha) and the Standard Life Wealth (Offshore) Income OEIC. We also reached the maximum equity target for our second European Real Estate Club; over €391 million was raised from 10 investment groups across three continents.
- ▶ In December, Guy Jubb was presented with the Outstanding Achievement Award in Corporate Governance at the Institute of Chartered Secretaries and Administrators Awards dinner in London. The citation for Guy's Outstanding Achievement Award said, 'As one of the best-known voices of active and engaged investment, Guy is never afraid to state Standard Life Investments' clearly thought out position to companies. He is one of relatively few fund managers willing to attend and speak at AGMs when he believes it is important that the voice of a major investor be heard.'
- ▶ We won a range of other awards over the course of the year. Pleasingly, these spanned numerous disciplines including investments, SRI/ESG and marketing. In March and April we won four Lipper Awards for 'Best Equity House' for Austria, Switzerland, Netherlands and Hong Kong. In July, we were rated the Leading UK Asset Manager for SRI/ESG in the Extel 2015 Awards. At the Marketing Society Star Awards 2015, we were awarded Gold and Bronze awards in recognition of the Ryder Cup campaign and strategy. Individual funds that won awards included our UK Equity Income Unconstrained Fund, Global Equity Income Fund and European Equity Income Fund. Finally, we picked up Diversified Growth Fund Manager of the Year (Financial Times PIPA Awards 2015), Best Fixed Income Manager (Annual Chief Investment Officer Innovation Awards 2015) and DC Investment Manager of the Year (Professional Pensions Awards 2015).

Source: Standard Life Investments, as at 31 December 2015*

Our approach to governance & stewardship

Standard Life Investments is a strong supporter of the principles of good stewardship that are set out in 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. It also 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.

The mission of our Governance & Stewardship team is "To act in the best interests of our clients and to seek to protect and enhance the value of their investments in accordance with our Governance & Stewardship Principles and Policy Guidelines."

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



Nick Duncan
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

From a global governance perspective, 2015 was a year of progress towards strengthening corporate governance and improving investor stewardship. That said, a considered analysis reveals some major breakthroughs, some missed opportunities and some emerging weaknesses.

In the US, investors made considerable headway in seeking and securing proxy access at a number of major companies, such as General Electric. However, there were some disappointments as well, with a number of proxy access proposals rejected – sometimes by narrow margins. In principle, we support proxy access because it serves to strengthen the accountability of a board to its shareholders. However, we believe that it is very important that the terms and conditions for proxy access enable the company's board to conduct its affairs efficiently, effectively and in the long-term interests of all its shareholders, not just a minority.

Shareholder activists continue to be centre stage in the US. Over recent years, the activists have become more sophisticated in their approach, often enlisting the support of major institutional investors to help their cause. It is debatable whether the opportunities afforded to activists to exploit corporate governance weaknesses is more of a reflection on the failure of institutional investors as a whole to exercise stewardship responsibilities effectively rather than on the failings of the board concerned. Shareholder activism has not been a one-way street and a number of companies, notably DuPont, successfully saw off assaults from activists by responding convincingly to the challenge. Shareholder activism is also becoming established in a number of European markets but it has yet to develop the momentum that is evident in the US.

In Japan, there has been considerable change – and change for the good. A number of corporate governance and accounting scandals, most notably Toshiba, contributed to a greater awareness among Japanese investors of the importance of good corporate governance and investor stewardship. The Japanese Stewardship Code, which was launched in 2014, is gaining more and more signatories, which bodes well for the long term. Nevertheless, it remains to be seen whether the signatories to the Code will apply it with the spirit of independence, conviction and professionalism that will bring an end to weak corporate governance structures and practices at many major Japanese companies.

The UK Stewardship Code continues to enjoy strong support in terms of the number of signatories. However, concern is being expressed regarding whether all signatories are complying with the spirit of the Code. The UK's Financial Reporting Council (FRC) signalled its intention to scrutinise the level of investor compliance with the Code. This will hopefully sort out the wheat from the chaff among the institutional investor community.

The evolution of accounting and auditing standards continued during 2015. As investors who rely on audited financial statements when making investment decisions, we supported the proposal by the International Accounting Standards Board to reintroduce the concept of prudence into its Conceptual Framework and to give more prominence to stewardship. However, we would like to see it as a primary objective of financial reporting. The significance of these proposed changes should not be underestimated and should help to ensure the development of accounting standards in the future that will be better aligned to the interests of long-term investors and their ability to hold boards to account. Also, the International Auditing and Assurance Standards Board (IAASB) issued new standards that will require auditors globally to provide more informative reports to shareholders. These will address the key matters that they considered when performing the audit, together with other additional disclosures. This should improve investors' understanding of the work done by the auditors. Enhanced auditor reports, similar to those proposed by the IAASB, have been operating in the UK for two years and we have found them extremely useful.

Audit tendering and rotation continued apace in the UK and the Netherlands during 2015. India is following suit and it is likely that tendering and rotation will become more commonplace in other countries in Europe over the coming years. However, the US has rejected any regulatory or legal approach to audit tendering and rotation. We continue to remain sceptical as to whether audit tendering and rotation will improve audit quality but we acknowledge that thus far it has been achieved without any obvious adverse impact. It is still early days. However, audit tendering and rotation has failed to increase the market share of those outside the Big 4 audit firms, which remains a cause for concern, especially as the audit practices within the Big 4 firms are increasingly marginalised by other business services provided.

In Europe, the review by the European Commission of its Shareholder Rights Directive continued during 2015. Many of the Commission's original proposals were watered down during the consultation and parliamentary processes. Despite the fact the emerging final revised Directive includes some welcome improvements such as increased transparency, we feel that Europe has missed an opportunity to strengthen shareholder rights in a way that would have improved accountability throughout the stewardship chain and lowered the cost of capital for European companies.





“From a global governance perspective, 2015 was a year of progress towards strengthening corporate governance and improving investor stewardship”

Engagement

Engagement undertaken by the Governance & Stewardship team, and the associated governance analysis, continues to be key to the team's contribution to the investment process at Standard Life Investments. Through this interaction, the team provides analysis and insights to help our fund managers in their assessment of risk and in their decision making.

Historically, the Governance & Stewardship team has had a structured approach to planning our engagements, but this has been refined over the past year as we have introduced our new global engagement process. The objective of the new process is to achieve greater focus on our key priorities, although there remains a need to ensure we also react to ongoing governance change at the companies we invest in. Using a number of specific criteria, we review our holdings and identify candidates for engagement and analysis across our various global portfolios. The screening criteria include economic exposure, our percentage shareholding and a measure of overall governance risk. The use of a governance score as a measure of governance risk is a new element and has been achieved using externally provided information which we tailor to meet our specific needs. The screening process is carried out on a six-monthly basis and allows us to systematically monitor governance change in line with our *Focus on Change* investment philosophy. The Governance & Stewardship team also discuss and agree priorities with the various fund management teams. The new process has already led to an increase in engagement with companies listed overseas. Over 2015, 22% of our one-to-one governance meetings were with companies outside the UK compared to 9% in 2014. In the past, engagement outside the UK was often challenging, partly due to companies having limited experience of governance engagement. However, this situation is changing. For example, during 2015, we held our first engagement with the Lead Independent Director of a Portuguese company, the Chairman of a German Supervisory Board, with board members from a number of Japanese companies, and we also expanded our engagement with US companies.

We highlighted last year that audit and board succession were emerging as more important themes for engagement and that trend has continued. The requirement for more regular audit tendering has led to a significant increase in the number of companies conducting a tender and we have had a number of engagements with Audit Committee chairmen as part of the tender process. We have probed issues such as how the Committee has made a judgement on audit

quality, the factors taken into account in reaching the final decision and whether the tender was conducted on a fully competitive basis. The aim of these discussions is to provide reassurance that the overall process is robust. For example, Barclays ran a thorough and transparent process which we discussed with the company on a number of occasions. It also posted a detailed overview of the process on its website. Other companies that we engaged on audit tendering include WS Atkins and Paragon Group.

On board succession planning, we continue to speak to boards about both executive and non-executive succession. In some instances, where we are significant investors, we have provided views on prospective candidates for independent non-executive board positions, including that of chairman. Within the UK, there is a more general debate about how well companies conduct succession planning. Indeed, the Financial Reporting Council has identified this area as one of its priorities.

In Italy, we took part for the first time in the 'vota da lista' process by which board directors and statutory auditors are nominated to the AGM by minority shareholders. This mechanism was set up to allow investors to present directors for election at companies which are majority controlled and is a way of allowing minority shareholders to have board representation. Each year, with the support of a number of minority shareholders, Assogestioni, the representative association of the Italian investment management industry, presents a list of directors for election at the AGMs of a number of Italian companies. This year we successfully supported its proposals at Telecom Italia and Atlantia.

In Japan, we continued our engagement with other investors to highlight the need for greater independent representation on boards. An initial letter signed by 20 global investors, including Standard Life Investments, was sent to 33 large Japanese companies in May 2014 requesting that they increase the ratio of independent directors on their boards and setting one-third as an achievable objective. To reinforce our message, we took part in a collective governance trip to Japan. We met with regulators, the Tokyo Stock Exchange, Japanese investors and a number of companies. Crucially, the new Japanese Corporate Governance Code is now in place. We view this as a very positive development. Many more Japanese companies are appointing outside or independent directors and of the 33 companies written to in 2014, 13 have either achieved the desired one-third ratio or have made significant progress

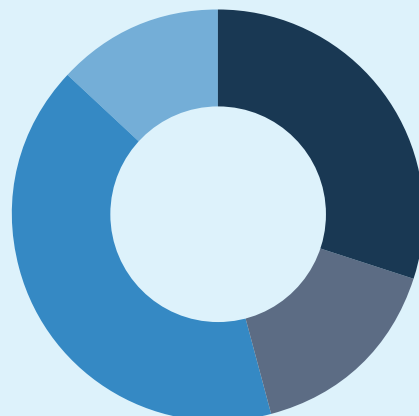
towards this. Follow-up letters have been sent to all 33 companies and, where there has been little progress, further engagement is planned.

In the US too, we have continued to expand the scope of our engagement activities. Governance practices at quoted US companies have continued to evolve since the financial crisis and from the momentum given by the Dodd-Frank Act which mandated a number of specific provisions relating to the rights of shareholders, such as 'Say-On-Pay'.

In 2015, the impetus for change centred on the right of shareholders to influence the composition of company boards. Practices such as 'classified' boards and the use of a plurality voting standard in director elections, which have the effect of entrenching board members, are slowly giving way to more democratic procedures. 2015 also saw an increase in the number of proposals favouring 'proxy access', a mechanism by which independent shareholders can nominate directors to the boards. We have generally favoured those proposals for proxy access that emanate from the companies themselves and recognise that in a period of increasing shareholder activism, the process of shareholder appointments to the board needs to be regularised so that other shareholders are not disadvantaged.

The following pages provide details of some of our key engagements during 2015. 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 2015



- Meetings & Calls 165 (30%)
- Correspondence 86 (16%)
- Voting issues 223 (41%)
- Remuneration consultations 68 (13%)



Engagement highlights

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

Ryanair Holdings ●

Ryanair is Europe's biggest low-cost airline, operating a low-fare business model which has delivered significant growth over the past 30 years.

Action: Ryanair has been a very successful company but there are a number of unusual aspects to governance arrangements which have the potential to add to investment risk. These include a high profile CEO, a number of long-serving non-executive board members and poor disclosure, particularly on remuneration. We met the Senior Independent Director (SID) to discuss these and other issues and subsequently wrote to reinforce our views. The company responded in a positive way, welcoming our feedback which was circulated to the board as a whole. Subsequently, we had a call with the SID (who is also the Chairman of the Remuneration Committee) to clarify a number of issues as part of our voting analysis ahead of the AGM.

Outcome: We were reassured of the board's ability to hold management to account and that board succession planning is on its agenda. We conveyed views regarding the transparency of reporting, especially on remuneration policy, and received assurances that our views will be considered. We will monitor disclosures in the annual report next year and hope to see some improvement.

Volkswagen ●

Volkswagen AG, and its subsidiaries, manufactures and sells cars and commercial vehicles in Europe, North America, South America and Asia Pacific. It operates through four segments: passenger cars, commercial vehicles, power engineering and financial services.

Action: We were investors in both Volkswagen equity and bonds. The revelation of the manipulation of emissions test data on diesel cars in the US, and the fact that the relevant software is also installed in many other Volkswagen diesel vehicles, raised a number of questions about internal controls and risk oversight as well as culture and values. One urgent issue is the lack of independence on the Supervisory Board and its board committees. We also question whether the appointment, following the revelations, of the former CFO as Chairman of the Supervisory Board, is appropriate.

Outcome: We wrote to the Interim Chairman of the Supervisory Board outlining our concerns and stating that we would contact them with a view to progressing our engagement. We asked that our letter be circulated to the Supervisory Board and were subsequently advised that

this had been done. We intend to progress this engagement in 2016.

SOCO International ●

SOCO is a UK-based oil & gas exploration and production company. It has interests in Vietnam and Africa.

Action: SOCO's activities in Virunga National Park in the Democratic Republic of Congo attracted criticism from a number of sources, including the World Wide Fund for Nature. We had engaged with the company on the issues raised and welcomed the subsequent decision to leave Virunga and the publication of new environmental and social policies. However, we were concerned regarding the lack of transparency of the independent review of its activities in Virunga. From a governance perspective, we also had concerns about board independence and the oversight of risk and noted that the auditors continued to provide remuneration advice. This was something that we had previously indicated was not good practice. Members of the Governance & Stewardship team and the Responsible Investment team met with the Chairman to discuss our concerns and also attended a collective investor meeting.

Outcome: The Governance & Stewardship team's views contributed to our fund manager's decision to significantly reduce our shareholding in SOCO. At the AGM in June, to reflect our concern about the lack of transparency, we voted against the re-election of the Chairman. We also abstained on the approval of the remuneration report and the appointment of the auditors. The bonus outcome for the year did not seem appropriate in light of the company's performance.

WPP ●

WPP is one of the world's largest communication services groups, employing 179,000 people globally. Its operations include advertising, PR, branding, marketing and communications.

Action: We have had longstanding concerns about remuneration policy at WPP, in particular the size of the potential award for threshold performance under its Long-Term Incentive Plan. We have engaged with the company on these issues but there has been no positive change. In addition, over time, the issue of succession planning for the CEO has become progressively more pressing. The CEO has been central to the growth and success of the company and hence his succession is a key governance risk. We were not convinced that this risk was being managed in a robust and transparent fashion. We met with the incoming Chairman to discuss this and we also attended the AGM where we made a public statement on this matter.

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

Outcome: The board has acknowledged our concerns and we continue to engage to seek appropriate assurances.

Petrofac ●

Listed in 2005, Petrofac is an international service provider to the oil & gas production and processing industry with clients that include many of the world's leading independent and national natural resource companies. It operates through two main divisions: Engineering, Construction, Operations and Maintenance (ECOM) and Integrated Energy Services (IES).

Action: Petrofac has grown rapidly since its debut on the public markets. However, the past two years have been more challenging as it has worked to ensure that the risks associated with a rapidly expanding order book are effectively monitored and controlled. The collapse in the oil price underlined these challenges as the budgets of some of the company's customers were themselves put under strain. Petrofac revealed a number of problems to the timely completion of certain projects, while the falling energy price damaged both the value and prospects of the IES division. We met with both the Chairman of the Board and the Chairman of the Audit Committee to discuss the risk control environment and the oversight provided by the Committee.

Outcome: Our engagement provided examples of how operational controls and the processes used to oversee risk had been tightened, although it was acknowledged that this remains work-in-progress. The importance of cash collection from customers was emphasised. The Chairman of the Audit Committee discussed the work of its members and some of the priorities for the next 12 months. The improvement in the governance reporting of the company was noted. The meeting also discussed some of the challenges faced by the Nominations Committee in respect of succession planning.

Royal Dutch Shell ●

Royal Dutch Shell is a global group of energy and petrochemical companies. During 2015, it made a recommended offer for the BG Group. The offer was approved at shareholder meetings in January 2016.

Action: We made a statement at the Shell AGM regarding the appointment of a new audit partner by PwC who had previously been the audit partner for Bumi and the auditor of Rio Tinto when Shell's Audit Committee Chairman was its Chief Financial Officer. We stated that we would have expected Shell's Audit Committee to provide a meaningful explanation about its evaluation of the new partner's perceived independence and track record.

In addition to our comments about the new audit partner, our statement addressed the scope of the audit undertaken by PwC which we felt was lower than other FTSE 100 companies.

At the AGM, Shell announced the conditional appointment of EY as auditors, replacing PwC for the 2016 financial year. Mindful that EY are the auditors to BG, we asked what had been done to ensure safeguards were in place to address any conflicts of interest.

Following the AGM, we engaged further with the Chairman and Audit Committee Chair Designate on the issues relating to audit scope and the appointment of EY. We also engaged with BG and EY to obtain their input into the management of conflicts, and we discussed our concerns with the Financial Reporting Council.

Outcome: As a result of our concerns regarding the new PwC audit partner, at the 2015 AGM we instructed our proxy to vote against the reappointment of PwC and the re-election of the Audit Committee Chair and to abstain on the re-election of the remaining Audit Committee members.

While obtaining, through our engagement, additional comfort around the future approach and focus of Shell's Audit Committee, we continue to have concerns about the appointment of EY as auditors of Shell. We shall continue to focus our engagement on audit quality at Shell.

Telecom Plus ●

Founded in 1996, Telecom Plus provides a range of utility services to both the domestic and small business markets. It trades under the Utility Warehouse brand name and reported sales in the year to the end of March 2015 of £729 million.

Action: Telecom Plus has grown strongly through an attractive customer proposition, although the realisation of its strategy has recently been hindered by the changes in the energy supply market. In particular, its competitive position has been affected by the large premium of retail over wholesale energy prices. This has allowed others to enter the market. The company has also implemented a number of changes of governance during this period, not least the change of auditor from BDO to KPMG and the arrival of a new Finance Director. In a number of ways, Telecom Plus presents some unusual features in its governance structure (e.g. an Executive Chairman) and we met the Deputy Chairman to give encouragement to the adoption of best practice in accordance with the UK Corporate Governance Code.

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

Outcome: The meeting provided detail and assurance around succession planning for the board and of the Audit Committee in particular. The accounting treatment of the company's energy supply agreements was also discussed. The rationale for the changes in the package of the long-term incentives provided for the new Finance Director was aired and we emphasised our views on the controversial practice of 're-testing', something we generally discourage.

Anglo American ●

Anglo American is a multinational mining company based in Johannesburg and London. It is the world's largest producer of platinum, with around 40% of world output.

Action: We met the Chairman in December to discuss the market's reaction to the announcement of a radical restructuring of its portfolio and other measures to enable it to deliver sustainable shareholder returns. We were constructively critical about the level of detail provided in the announcement and encouraged the provision of additional information to the market sooner rather than later. Also, we discussed succession planning and the implications of the viability statement which Anglo American will have to provide for the first time in its 2015 annual report.

Outcome: The Chairman acknowledged the need to provide more information to the market about the restructuring. Appropriate reassurances and insights were provided in respect of succession planning and we shall monitor progress. There was mutual understanding regarding the significance of the viability statement.

Grainger ●

Incorporated in 1912, Grainger is the UK's largest listed specialist residential landlord and property manager. Its business model is to realise value from a portfolio of tenanted properties previously acquired at a discount to vacant possession value. It also lets properties at market value and earns fees from its management of residential assets.

Action: While the UK property and housing markets have been booming, Grainger has experienced challenges in winning investors to a strategy that had been complicated by a number of diversifications that were poorly understood by the market. The company has also had to contend with the departure of a cohort of long-tenured leadership from the board, a group of directors that had been intimately connected with the development of that strategy in the past. Over the years, we have encouraged the board to better articulate Grainger's business model and the linkage of governance to the delivery of the strategy, as well as further improving the quality of its governance disclosures.

Outcome: We met the new Chairman who has brought a new level of purpose and focus to the board and wider group. Greater emphasis will be placed on the well-honed skills of property management and less on trading. The value of the reversionary portfolio will be optimised in areas of high residential demand such as London. The board has been refreshed with the recruitment of a new CEO and Finance Director and the appointment of a new Chairman of the Audit Committee.

Thomas Cook ●

Thomas Cook is one of the world's leading quoted leisure travel groups having been formed by the merger of Thomas Cook AG with My Travel plc in 2007. The industry is characterised by high capital intensity but low marginal returns and faces intense competition from the proliferation and growth of low-cost carriers.

Action: Thomas Cook has faced a number of challenges as it recovers from the financial crisis that engulfed the group in 2011-2012. It has faced difficult trading conditions at a time of instability among the ranks of its senior leadership team. Last year, it was criticised by an inquest held into the deaths of two small children on holiday in Corfu in 2006 and of having "failed in its duty of care" to its customers. The resultant critical scrutiny in the media prompted the company to appoint Justin King, the well-regarded former CEO of Sainsbury plc, to conduct an independent enquiry into the effectiveness of Thomas Cook's procedures relating to safety and customer support. We met with the Chairman and also separately with the group's General Counsel to discuss the board's view of the apparent deficiencies, as well as King's terms of reference. We also strongly encouraged both to make sure the company made public any findings and recommendations from the enquiry.

Outcome: We received assurance that company policies would be reviewed and investment made in the training and empowerment of staff, particularly in the holiday resorts used by its customers. To its credit, Thomas Cook published the King review even though it was highly critical of both its culture and procedures. The board will need to ensure that robust action is taken to sustain the confidence of all stakeholders in the company's brand and business practices.

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

EOG Resources ●

EOG was formerly known as Enron Oil & Gas and was demerged from its parent in 1999. It is the largest quoted shale oil producer in the US and has been instrumental in the development of the vast reserves contained in the Bakken shale of North Dakota. Most of the company's production arises in the US, but it also has operations in the UK and Caribbean. The company is based in Houston, Texas.

Action: The US governance environment was enlivened in 2015 by the issue of proxy access, the mechanism by which independent shareholders can nominate directors to a company's board. A number of companies received proxy access motions, many of them submitted by the office of the New York City Comptroller (NYCC). We engaged with the General Counsel of EOG Resources to discuss its approach to the issue and its counter proposal to that submitted by NYCC. We encouraged the board to develop its proposals and to articulate them in a convincing manner.

Outcome: At the annual shareholder meeting in 2015, shareholders were effectively split on the non-binding resolution for proxy access submitted by NYCC. The board subsequently amended its bylaws to enable shareholder nominations access to the ballot and in a way which it believes limits the potential for misuse while safeguarding the long-term interests of all shareholders. Critically, it has built on the proposals submitted by NYCC by introducing an aggregation limit which will provide protection against the abuse of this important shareholder right.

Boston Scientific ●

Listed in New York in 1992, Boston Scientific is a leading medical device company with a strong franchise in applications that involve invasive surgery. It has particular expertise in the areas of cardiology, endoscopy, urology and women's health and in 2014 generated sales of \$7.4 billion. However, the company is no stranger to controversy and has attracted the attention of the US Department of Justice in respect of its sales practices. Its law suit with Johnson & Johnson on the issue of patent infringement lasted for over a decade and was finally settled in early 2015. More recently, it has been involved in litigation relating to the safety of its pelvic mesh products.

Action: Boston Scientific has a number of governance features that lag behind the best practices that are being more widely adopted by leading quoted US companies. We engaged with both the General Counsel and the Governance

Counsel to discuss how the company can raise its game. Areas of discussion included board composition and evaluation and the steps that the board is taking to refresh itself. The continued use of a plurality standard in respect of director elections was also highlighted as a point of concern. We encouraged the board to improve the quality and detail of its governance disclosures, particularly in respect to board evaluation and financial audit. We undertook to provide the Counsel with examples of best practice board evaluation.

Outcome: The company was receptive to our views and undertook to review the amount of detail given in its regulatory findings. While detail is provided about the company's legal liabilities, a discussion of the Audit Committee's wider role will also be considered. The use of the plurality voting standard will be re-assessed.

Dentsu ●

Dentsu is one of the world's largest advertising companies. It is the market leader in Japan but its activities globally encompass 124 countries.

Action: Our engagement in Japan has particularly focused on board independence and our wish that companies move to having a minimum of one-third independence. During a trip to Tokyo, we attended a collective meeting with a number of Dentsu executive officers and representatives from the legal division and investor relations. The meeting focused on board composition and the potential impact of the new Corporate Governance Code. The Dentsu board currently has two outside directors from a total of 11 board members. These outside directors represent major shareholders and, as such, are not independent. We had a constructive discussion on the value of independent directors and what they can bring to the board. We also pointed out that, as a global company, investors will compare it to its global peers on this important issue.

Outcome: Our discussions suggested that the board is actively debating the issue of board independence and we are hopeful that progress will be made on this issue over the coming year. We also pointed out the importance of the new corporate governance report as a means of investor communication – as a communications company, Dentsu has the opportunity to lead the way on the format and content of this document.

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. We use our votes to hold boards to account, engaging when necessary. Key areas in 2015 were board composition, mergers & acquisitions, equity issuance authorities without pre-emption rights, auditors, remuneration and shareholder rights.

The UK binding vote on remuneration policy is now in its second year and is bedding in. The nature of the resolution sets an expectation that companies should determine a remuneration policy that is binding for three years. Companies continue to consult with shareholders on changes to remuneration arrangements, most commonly with respect to amendments to existing schemes such as revised performance measures and targets.

We are mindful of the global trend to reduce the corporate cost of pensions. Where we find that companies are operating pension arrangements for directors that are not consistent with this trend we will engage with the company and factor this into our voting decision. We did this at the AGMs of BP, HSBC and WPP.

During 2015, there were a number of governance developments in global markets which had an impact on our voting activity.

A key issue of the French proxy voting season was the impact of the Florange Act (the Act). The Act, which was adopted in March 2014, provides for the automatic grant of double-voting rights to long-term shareholders. Double-voting rights will be granted to shareholders who have held positions in companies for more than two years, unless the company has presented a resolution and received shareholder approval to opt-out of the provision. As we are strong supporters of the principle of one share, one vote, we were not supportive of this change. In January, along with a number of other global investors, we wrote to several of our larger French holdings to urge the companies concerned to present resolutions at their AGM allowing shareholders to vote on opting out of these provisions. Throughout the season, many opt-out resolutions were proposed by management, which we supported. In addition, a campaign, led by French asset management company PhiTrust, resulted in shareholder proposals tabled at two AGMs including Orange, which we supported. The Act also removes the principle of board neutrality in bid situations, and we voted against the company's equity issuance authorities as the authorities could potentially be used in a takeover situation and the company was unable to provide an assurance that the board would not use them in this way.

Remuneration was also an area of focus when voting in Europe, with particular attention being paid to the level of disclosure provided and the link between pay and performance. 2015 was the first year in which a binding vote on remuneration was required at all public companies' AGMs in Switzerland.

In Japan, we continued to take voting action to emphasise our views on independent representation on boards. Where boards did not contain at least two unaffiliated outside directors we voted against the election of non-independent directors, with the exception of key executives. We did, however, note improvement in independent representation at certain companies. For example, we were able to support all director elections at the AGMs of Fanuc Corp and KDDI Corp, having previously taken voting action against board members due to insufficient independent representation.

Also in Asia, we saw an improvement in Indian voting practice following amendments made by the Securities and Exchange Board of India to the Equity Listing Agreement. Issuers are now required to provide electronic voting facilities to their shareholders which is a welcome change as this provision will enable voting by foreign shareholders at companies that previously required attendance at meetings in order to vote.

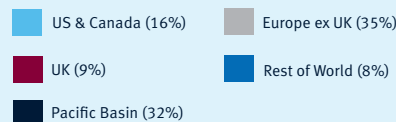
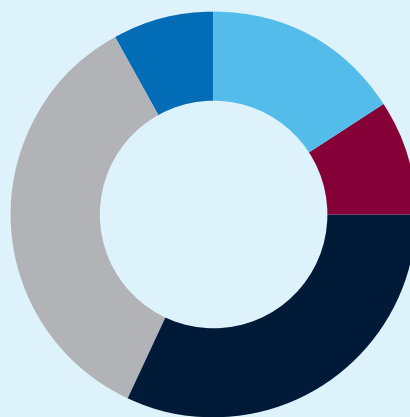
In the US, a large numbers of investors supported proxy access provisions allowing director nominations by investors holding a 3% ownership stake for three years. We approached these resolutions on a case-by-case basis, in some instances voting in favour of management when the board committed to present a counter proposal.

To improve the transparency of Standard Life Investments' voting activity, we commenced public disclosure on our website of all votes cast across all markets from the beginning of the year. This was an enhancement to our process which was previously to disclose only votes against and abstentions in the UK and Europe.

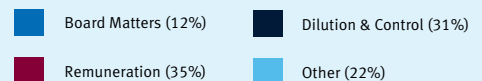
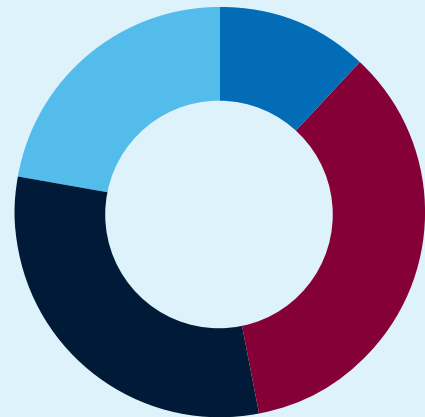
Voting summary 2015

Shareholder meetings at which the shares we manage on behalf of our clients were voted	1,732
Number of resolutions voted	21,056
Shareholder meetings at which the shares we manage on behalf of our clients were voted against management recommendations on one or more resolutions	515
Number of resolutions voted against management recommendations	1,248
Shareholder meetings at which the shares we manage on behalf of our clients shares abstained on one or more resolutions	154
Number of resolutions abstained	250

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 other developed 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 2015, the shares we manage on behalf of our clients were voted against management recommendations on 265 resolutions at Japanese shareholder meetings. Of these resolutions, 84% of votes against management recommendations related to director elections.



Voting highlights

Bank of America

At a Special General Meeting, shareholders expressed significant dissent at a proposal to ratify amendments made by the board to the company's bye laws. The purpose of the amendments was to remove a requirement, previously approved by a majority of shareholders in 2009, that the Chairman should be independent. We were opposed to this amendment as we believed that the board would benefit from independent oversight and also that the board should seek approval for such a change from shareholders in advance.

BG

At the time of the recruitment of its new Chief Executive, the company proposed a controversial special one-off incentive for him. Due to concerns expressed by shareholders, the company did not proceed with this proposal and decided to make awards under its existing Long-Term Incentive Plan (LTIP). During our discussions with the company at this time, we asked it to make changes to its existing LTIP in respect of the level of vesting for threshold performance. This has been a longstanding issue for us. We were pleased that the company agreed to reduce this amount. However, we would have preferred that it reduced the amount to a level fully consistent with our views. Our concern was compounded as the company made larger than normal awards as part of the recruitment package for its new Chief Executive.

In recognition that there has at least been some progress on this issue, we abstained on the remuneration report resolution.

Deutsche Bank

In considering how we would vote on the discharge of the management board at the company's AGM, we paid particular attention to the outcome of the LIBOR/EURIBOR investigations. While we had concerns around the ongoing legal action and the risk management processes and control, the key issue for us was the way management dealt with the regulator during the investigations. Deutsche Bank misled the regulator in a number of ways, including false attestation regarding the adequacy of controls and destroying tapes of telephone calls in error. We expect companies to uphold generally accepted standards of corporate ethics and strive to achieve best practice. This behaviour fell short of this expectation and hence we voted against the discharge of the Management Board.

Glencore

We were concerned that the Chairman continued to have executive responsibilities with another company. This conflicted with assurances we had received from the company on this matter last year. We therefore instructed our proxy to abstain on

the re-election of the Chairman, who subsequently relinquished these responsibilities. We met the Senior Independent Director to discuss this further, as well as other corporate governance issues.

HSBC

The company remuneration policy is to provide 50% of salary cash allowances in lieu of pensions for all executive directors. We do not believe this level is justified by reference to relevant comparative yardsticks. The company acknowledged that we had raised the issue previously with them and drew our attention to its commitment to review the allowances as part of the process for developing a new remuneration policy for consideration by shareholders at the 2016 AGM. We informed the company that we believed it should press ahead and reduce the allowances as soon as possible and not wait for a new remuneration policy to be approved at the 2016 AGM, noting that in our view a quid pro quo is not required. As a consequence, we were assured that best endeavours would be used by the Remuneration Committee to implement new pension arrangements in early 2016 and that this development would be referenced at the AGM.

In light of this, we agreed to abstain on the remuneration report resolution.

Sports Direct

We voted against the introduction of an incentive scheme in 2014. In 2015, the company sought to reduce the performance targets on this incentive scheme. We were not sufficiently convinced by the explanation given that we should support this change. We also had a number of concerns regarding the underlying remuneration policy itself.

We therefore instructed our proxy to vote against the resolutions to approve the remuneration policy and to amend the incentive scheme. In addition, in view of the continued failure of the Remuneration Committee to address our concerns and in view of some wider concerns about the governance of the company, we voted against the re-election of the Chairman, the Senior Independent Director and the Chairman of the Remuneration Committee to emphasise the importance we attach to these matters.

Toyota

At its AGM, the company proposed to introduce a new share class, the AA shares. This share class has a number of similarities to a convertible bond as holders have a right to a certain level of dividend and certain conversion rights. The AA shares are not tradable or transferrable but can be converted into equity or cash after five years. However, unlike debt, the shares also have voting rights. We engaged with the company to understand the

rationale for the issue of the new share class. It is effectively aimed at retail investors and has a guaranteed level of dividend, with the principal amount invested also guaranteed. Should there be a fall in the value of the ordinary shares, then these guarantees will not be available to 'ordinary' shareholders.

We therefore did not consider the introduction of the AA share class to reflect equal treatment of all shareholders and we opposed the issuance.

National Express

National Express is a leading transport provider delivering services in the UK, Continental Europe, North Africa, North America and the Middle East. Following a meeting with the Chairman, we decided to vote against a shareholder resolution calling on the company to commission a third-party review of its employee and health & safety practices, tabled by the Teamsters Union. The company had improved practices and increased its levels of disclosure since our previous meeting with it. As such, an independent review would have been unduly burdensome.

WPP

We attended and spoke at this AGM to encourage the company to provide clarity on succession planning for its influential Chief Executive.

Also, as in previous years, we opposed remuneration-related resolutions because of a number of concerns regarding remuneration policy. This policy allows a long-term incentive plan to provide significant rewards for achieving unchallenging performance targets. The Chief Executive continues to receive a pension contribution equivalent to 40% of salary. This is high relative to current trends to reduce the corporate cost of executive pensions and in comparison to other WPP executives who receive a lower amount. Over and above the matters noted above, there are a number of other concerns with the remuneration policy and how it is applied. These include generous spousal travel benefits to the Chief Executive.

In view of the failure of the Compensation Committee to address our longstanding concerns, which have been communicated to the company over many years, we instructed our proxy to vote against the re-election of the Compensation Committee Chairman and the remuneration report resolution.



Telecom Italia

The company convened a general meeting to approve the conversion of its savings shares into ordinary shares, of which we were supportive. Following the announcement of this meeting, the company's largest shareholder, Vivendi, requested the addition of several resolutions to the meeting agenda. Vivendi proposed an increase in Telecom Italia's board size by four seats and sought approval to appoint four of its own nominees to these seats. Vivendi also sought release from the relevant non-competition obligation. We engaged with the Chairman of Telecom Italia to seek his views on Vivendi's proposals and supported Italy's investment management association, Assogestioni, in letters to both companies expressing concern and seeking comment.

Our key concerns regarding the shareholder proposals were that the appointment of four Vivendi nominees would result in a dilution of independent representation on the board and, in our view, an over-representation of the largest shareholder. We therefore opposed Vivendi's proposals. At the general meeting, the proposals to enlarge the board and appoint four Vivendi nominees were approved, by a narrow majority. However, the release from the non-competition obligation was not approved. In addition, following an abstention by Vivendi, the share conversion did not achieve the required support and was not approved. In view of the board changes, we intend to engage with the company further.

Influencing governance change

Our Governance & Stewardship Principles and Policy Guidelines state that we should “use reasonable endeavours to influence the development of the corporate governance and stewardship environment”. Accordingly, we have continued to “exercise influence in matters of public policy and regulation where these relate to governance and stewardship and the interests of our clients”.

Governance practices and the legislative and regulatory environments driving their development have continued to change globally, providing opportunities for us to input our views in a number of regions in which we invest on behalf of our clients. It has also continued to be increasingly apparent that our clients expect us to take an active involvement in raising standards of governance through the various methods available to us. The UK has historically been where we have focused most of our influence. However, during 2015 we continued to build our influence in other geographic regions, particularly in Europe and the US. Provided below are some of the key policy areas where we endeavoured to apply our influence.

UK

We used our industry contacts and membership of various collaborative groups and committees as opportunities to influence the development of a broad range of legislative, regulatory and best practice developments. Some of the important policy consultations covered in this way included:

- ▶ the PRA and FCA approach to non-executive directors in banks and Solvency II firms where concerns about the impact on the principle of collective board responsibility were raised
- ▶ the FRC’s implementation of the EU Audit Directive and Regulation and the UK’s Audit Firm Governance Code
- ▶ the FRC’s Audit Quality Review Team and comments on the IASB Conceptual Framework consultation
- ▶ the role of investors in improving corporate productivity.

In addition to the regular committee involvement above, we actively promoted our views on various other topics of importance in the UK. This was done through the publication of articles, letters to relevant bodies and speeches. Where appropriate these are all publicly available on our website and included topics such as how boards should deal with activist investors, audit tendering, audit committee engagement, audit reporting and remuneration.

Europe

The progress of the amendments to the Shareholder Rights Directive has continued through the European legislative process. We continued to engage with those responsible for this document throughout 2015, providing our views on the further amendments proposed by the European Council of Ministers and the European Parliament. Overall, we are comfortable with the majority of the likely amendments but are disappointed that the most likely outcomes will not significantly change governance and stewardship practices across Europe.

We took part in a number of collective actions and conferences across Europe.

- ▶ We were signatories to a collective letter to several of our larger French holdings to express our concerns about the new Florange Act which removes the principle of board neutrality in bid situations and also automatically introduces double voting rights at all listed companies.
- ▶ We supported an initiative in Italy that would allow companies to introduce double voting rights only with the support of their shareholders. Letters were written to a number of Italian-listed companies outlining our support for the principle of one share, one vote.
- ▶ We submitted a letter, supported by other investors, responding to the consultation by the German Corporate Governance Code Commission on changes to the Governance Code. The letter provided specific comments on proposed changes relating to board composition and compensation and the apparent removal of the need for an audit committee.

US

During 2015, we interacted with our peers involved in US governance and stewardship activities. This was mainly focused on our attendance at the Council of Institutional Investors (CII) and the International Corporate Governance Network (ICGN) conferences. These allowed us to maintain awareness of practices in the US, further develop our relationships and also to share details of our own activities. These interactions included taking part in panels discussing topics such as the case for a stewardship code in the US and improvements in audit committee reporting.

Japan

Following the implementation of the Stewardship Code, the Japanese regulator began to develop a Governance Code. We submitted a response to its consultation providing our views on the Code in general and raising specific points in relation to:

- ▶ the role of the advisory committee on audit, particularly in situations where a company has a 'kansayaku' board structure
- ▶ the quality of explanations under the 'comply or explain' format
- ▶ the role of the chairman which had been omitted from the Code.

We visited Japan with a number of global investors to meet with companies, investors and regulators. This provided an opportunity to share our views on the changing nature of corporate governance in Japan, particularly the implications of the new Governance Code.

Following the issue of principal-guaranteed shares by Toyota, we, along with other global investors, issued a public statement giving our views on the use of such shares. It promoted our preference for adherence to the one share, one vote principle and pointed out that attaching votes to principal guaranteed shares distorted this, creating potential conflicts of interest among investors.

Asia (ex Japan)

As in previous years, we visited India early in 2015 to assess and provide input to the current development of corporate governance standards at Indian companies. This was a good time to

meet with various individuals and companies involved with the implementation of the new requirements, including investors, those involved with executive search and board evaluations, external auditors, regulators and issuers. The meetings provided a good understanding for how the new requirements are progressively improving standards of corporate governance in India.

We presented to a delegation of non-executive directors of leading Chinese banks at IMD, the leading international business school in Lausanne, Switzerland. The presentation provided historical context to the evolution of modern day corporate governance and stewardship in the UK. Drawing on our own experience, we also shared insights on the role of governance and stewardship in asset managers and our views on the evolving global governance scene. The presentation helped to give the delegation an understanding of the role of global asset managers in engaging with companies and holding their boards to account.

As members of the Asian Corporate Governance Association, we continued to participate in its regular discussion group calls. These provided an opportunity to give our views on a number of policy matters that were developing in Asian markets. We also attended the annual conference in Kuala Lumpur, which was attended by many of our peers involved in governance and stewardship, as well as regulators, policy makers and companies from the region. We find the conference a useful way to hear about the activities of others and to share our views on general governance topics pertaining to Asia.

Looking forward

The role of asset managers and their use of environmental, social and governance (ESG) factors in making investment decisions is receiving increased focus around the world. Regulation and codes requiring stewardship activities by shareholders, and corresponding requirements on companies through corporate law and corporate governance codes, have been put in place or are being developed in many jurisdictions.

Savers and investors, and those representing them, are increasingly showing interest in the use of ESG factors in the investment of their money and the holding to account of the companies in which their money is invested. Examples of companies where significant value has been destroyed due to failures in governance or the mis-management of environmental and social risks have occurred on a regular basis – Volkswagen was a notable example in 2015. We believe, more than ever, that asset managers such as Standard Life Investments are obliged to act as stewards of the money entrusted to them by their clients.

At Standard Life Investments, the analysis and mitigation of the ESG risks of the companies in which we act as stewards on behalf of our clients has been integral to our investment proposition since 1992. Looking forward, these activities will continue to develop as they become increasingly important and come under increased scrutiny from clients, advisers, regulators and policymakers. In recognition of this, we shall further extend our ESG activities into our global

investments. We expect to be increasingly held to account for our governance and stewardship roles. This will include how we influence practice and policy, and will require us to improve our transparency so that our clients and other stakeholders are able to assess what we have done in holding companies to account.

We believe that we remain at the forefront globally of stewardship activities and the development of best practice. Practice is developing quickly and the expectations of us and our peers increases accordingly. We will continue working to raise standards of governance through the various channels open to us as a large and increasingly influential global asset manager. We will also seek to be as transparent as possible in all of our actions so that clients, policymakers and broader society are aware of the actions we have taken and accordingly hold us to account.

Responsible investment

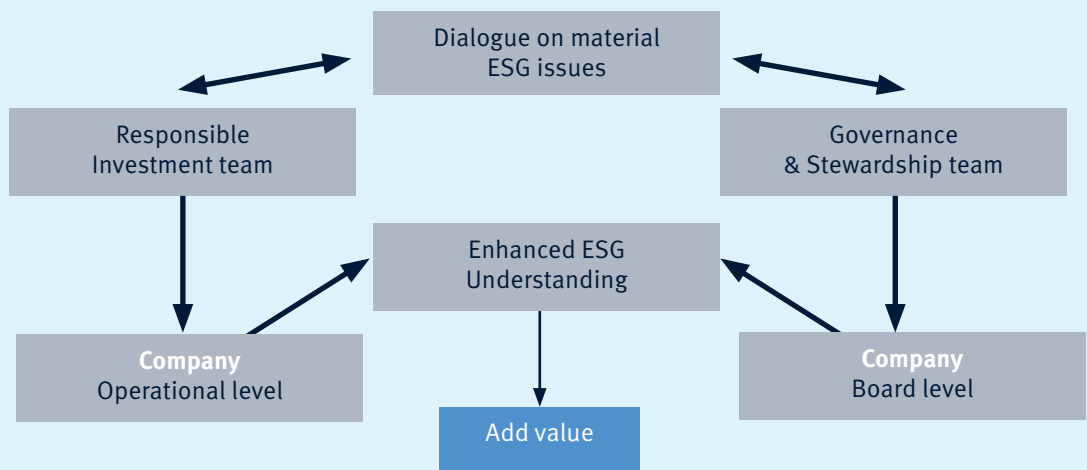
We have both a Responsible Investment (RI) team, which focuses on environmental and social issues, and a Governance & Stewardship (G&S) team, which focuses upon stewardship and corporate governance. These teams interact and collaborate to provide our clients with an integrated and award winning ESG service.

Two dedicated resources

The RI team seeks to identify risks and opportunities relating to environmental and social operational issues in the companies in which we invest. Research is at the heart of this process. The team examines board policies, such as those relating to health & safety, labour, anti-corruption and the environment. Further, the RI team explores how these policies are implemented in practice, normally involving one-to-one discussions 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.

G&S team

Our RI team works closely with our G&S team, which focuses on board oversight and the governance framework within which companies operate. This includes how a business is governed, the development and delivery of strategy, board composition, remuneration, audit issues and voting at shareholder meetings. Its process normally includes discussions with the company chairman and board, particularly non-executive directors.



Voting on environmental and social issues

The RI team has worked closely with the G&S team to develop a policy on voting on all environmental and social resolutions lodged at company AGMs and EGMs. While the G&S team conducts all voting on the shares we hold on behalf of our clients, the RI team has the in-depth knowledge and expertise on environmental and social matters. This information is fed into the process to ensure we have given due oversight with regard to a company's policies and activities, and can make informed judgements on the validity of these resolutions. Hence, there is a formal process of identifying, assessing and voting on these resolutions.

Ethical Funds Advisory Board

Chaired by Standard Life's Group Operations Director, the Board's role is to oversee our specialist ethical strategies. It meets every six months to ensure our policies and procedures are applied correctly, and accurately reflect the views of those invested in these strategies.

The importance of regular dialogue

The G&S team and the RI team meet regularly and share information across a broad range of issues. In addition, the heads of both teams meet bi-monthly to discuss wider strategic issues.

In-depth reporting

Given the nature and types of conversation held with our investee companies, the RI team reports quarterly on activities and its approach to current issues. It also publishes numerous articles, thought leadership pieces and white papers.

Please visit our website for further details about our approach to responsible investment.

http://www.standardlifeinvestments.com/sustainable_and_responsible_investing/index.html

Visit us online



standardlifeinvestments.com

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