There has been an unusually high level of corporate activity affecting a number of companies in your portfolio in recent months. First, Microsoft flagged its intention to acquire LinkedIn, then Tesla announced its offer to acquire SolarCity, a rooftop solar installation company. Shortly thereafter, Softbank made a bid for ARM Holdings. Each of these deals has challenged our investors and involved close liaison with our corporate governance colleagues.

The timing of Tesla's offer for SolarCity was undeniably uncomfortable so soon after its recent capital raising. However, the acquisition is consistent with Tesla's broader ambition to create a carbon emissions free world; beginning with the flywheel of electric cars, then moving to battery storage and finally to renewable energy. This is a significant transaction for Tesla and is further complicated by Tesla CEO Elon Musk's 21% and 22% holdings in Tesla and SolarCity respectively. There is also overlap between the boards of both companies.

In recognition of this conflict, Musk has recused himself from board deliberations and the shareholder vote at the corresponding EGMs for both companies. Our conversations with Musk made clear that Tesla's principal reason for acquiring SolarCity, rather than operating in partnership, is to eliminate conflict-of-interest problems. Since Tesla got involved in stationary storage it has worked on an integrated generation-storage solution, but each new initiative needs an independent board process which is time consuming and presents a road-block to success.

As long-term shareholders, we have always believed in the importance of voting on each and every resolution and in each case, where possible, exercising one's full weight of shares. To that end, we wrote to clients that participate in stock lending programmes requesting that they instruct their custodian or lending agent to recall and hold any Tesla stock out on loan, and to restrict the lending of further stock ahead of the EGM to vote on the

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acquisition. We will not always ask for clients to recall stock, recognising that this is an additional source of revenue for some. However, in circumstances such as those described above it feels appropriate – Tesla is after all a substantial holding in your portfolio.

ARM Holdings was a much smaller position and had been held in the portfolio for almost four years. Softbank's offer of 1700p per share represented a premium of over 40% to the undisturbed share price. In our eyes, ARM is a very good company with a great record of innovating in chip design and an interesting culture, but the key question was: did the offer reflect what we thought this business could be worth in the long term?

There have been occasions in the past when we have fought quite hard to keep companies independent (Roche's bid for Illumina for example back in 2012) but in this particular case, the decision was more nuanced. We made contact with The Investor Forum, an industry body which seeks to co-ordinate responses to stewardship matters. It was happy to contact other major shareholders on our behalf to test the waters as to how many felt the offer price may have given away too much in terms of future upside.

We have a lot of respect for Softbank's leader Mr Son. Softbank could well afford the deal (not least because ARM is a UK-based company and sterling has weakened so much recently against the yen) and it is clear that ARM feels that Softbank is a very long-term parent for the business. The company is confident that Mr Son will honour his promise to double the UK workforce and retain the Cambridge headquarters. As such, the ARM board recommended that the approach should be accepted and, following shareholder approval, Softbank acquired your ARM shares in early September.

Microsoft's bid for LinkedIn was timely. We had been considering the holding in LinkedIn for some months; user numbers were growing but the lack of user engagement, while being addressed, was a known issue. The bid represented a premium of 50% to the undisturbed share price. With a counter-bid unlikely and a chance that Microsoft may decide to pull the offer, we sold the shares close to the bid price.

In parallel with these unexpected projects, our Corporate Governance team is working away on a number of different assignments. As signposted in our ESG Research Programme published at the end of 2015, the Corporate Governance team is considering how to better understand potential risks and opportunities for your holdings arising from their tax strategy.

In the past few years, there has been growing public interest in corporate tax arrangements that result in surprisingly low tax bills in seemingly profitable markets. This frames a number of new challenges for companies, who are not used to having to defend legal but potentially contentious tax arrangements. At present, most of the scrutiny is on US companies' overseas operations. Because of the provisions in the US tax code which allow US companies to defer tax payments on overseas earnings, there is a considerable incentive for US companies to regularly review their international tax arrangements.

Capital light technology, online retail and services companies also have the flexibility to structure their operations in a broader range of ways than more industrial companies, and therefore have the potential to be more creative. This is a rapidly developing area, and as such we are likely to be carrying out a number of ongoing reviews in the future. However, our work in this area started some years ago and we have had numerous conversations with, for example, Amazon and Alphabet. Since we raised the issue, both companies have made a number of positive changes to their tax affairs. Amazon voluntarily made a change last year – UK sales are now booked in the UK (rather than Luxembourg) and therefore subject to the usual UK taxes.

The work being carried out by our Corporate Governance team comprises four parts. Part one will scope the issues and provide an overview of recent developments; part two will develop the methodology for identifying potentially high risk companies; part three will apply this to portfolios to identify priority companies for engagement, and part four will focus on engagement with the short-listed companies. We plan to provide a high level summary of this work to clients later in the year. But, in the meantime, we will continue engaging with your portfolio companies on tax as a matter of course in our interactions with them.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	4	Companies	1	Companies	None
Resolutions	29	Resolutions	1	Resolutions	None

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Firmwide Company Engagement

Engagement Type	Company
AGM or EGM Proposals	Facebook Inc.

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Votes Cast in Favour

Companies	Voting Rationale
ARM Holdings, HDFC Corp, Inditex, LinkedIn Corp A	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
LinkedIn Corp A	Special 19/08/16	3	We opposed the Golden Parachute awards as we do not believe the retention award granted to the CEO is an appropriate use of shareholders' capital.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.