

In our 2014/15 annual governance review, we commented on the importance of climate change and the low carbon economy as key themes for the years ahead. While we appreciate that clients will have a range of views on climate change, it is clear that global policy, regulation and sentiment are all moving in a similar direction, and this momentum will continue to build as we move towards the important global climate change negotiations in Paris at the end of the year. To help reinforce our own commitment to addressing these themes, we strengthened our team resources in this area at the start of the year. It seems sensible, therefore, to use this quarter's letter to provide a brief overview of some of the work we are undertaking.

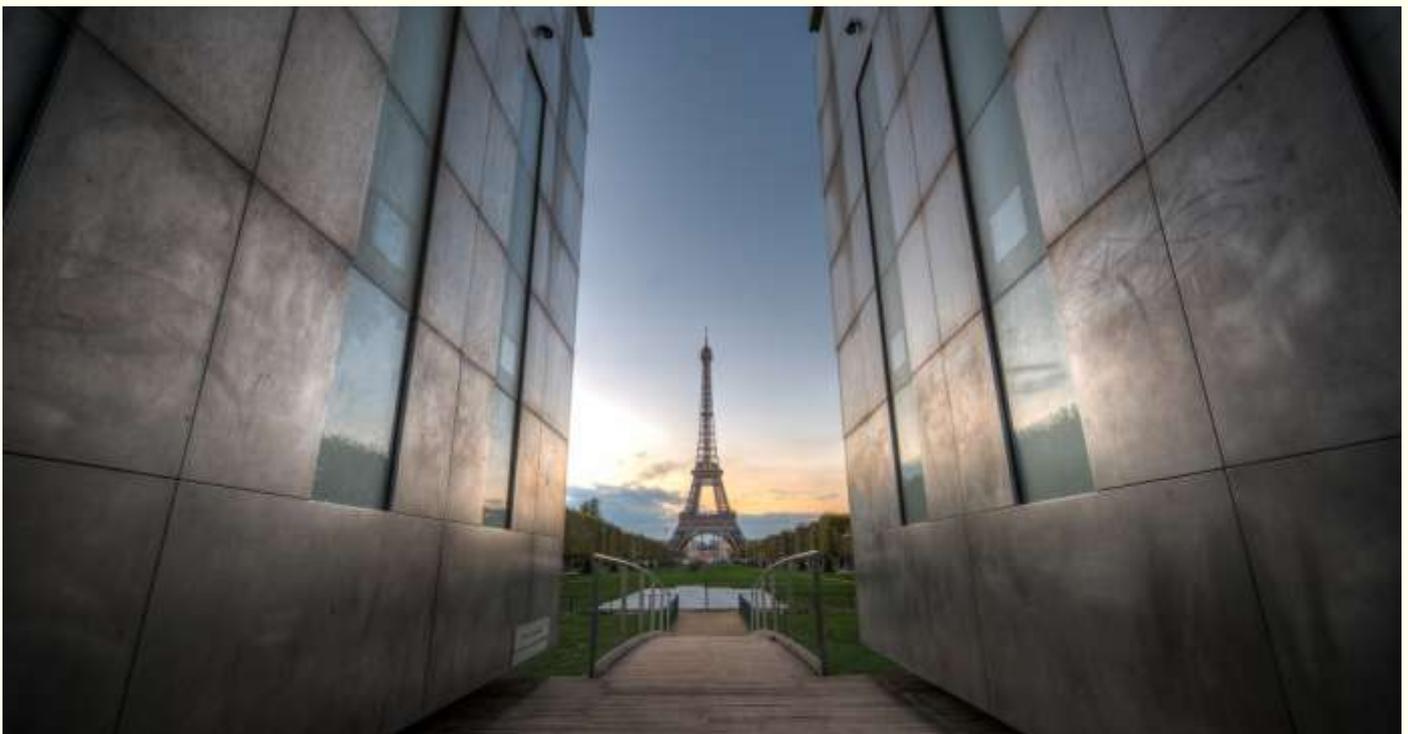
Our focus this quarter was largely on generating a good basis from which to move into a more detailed research and engagement programme. Key strategic research activities looking at climate change, stranded assets and divestment are currently being amalgamated into a white paper which will set out how we are starting to think about climate change and our overall approach to addressing the risks and opportunities associated with it. We look forward to sharing this with you in due course.

In May, we attended the two-day Business and Climate Summit in Paris. This event brought together 1,700 business leaders to discuss potential climate impacts on business in advance of the 21st Conference of Parties of the United Nations Framework Convention on Climate Change (the UNFCCC COP21). CEOs of

leading businesses from all sectors were joined by prominent politicians from around the world, including the French President, François Hollande. The summit sought to promote a progressive response from policymakers, calling on them to:

- introduce robust and effective carbon pricing mechanisms on all emissions – including the elimination of fossil fuel subsidies
- establish an alliance between businesses and governments leading to the integration of climate policies into the mainstream economy
- leverage public funds and private sector finance to de-risk investment towards low-carbon assets, especially in developing countries

This Business and Climate Summit was followed directly by Climate Finance Day, during which the French Government took the opportunity to announce plans for mandatory portfolio carbon footprint disclosure for French institutional investors. Of most relevance for asset management was the discussion on fossil fuel divestment. Here, the message accorded well with our own approach, with a preference to stimulate an orderly transition over the next 20–30 years underpinned by engagement. The general consensus was that divestment only has a place where engagement has demonstrated that the companies cannot and will not change, or at a project level where the company's allocation of capital (e.g. to high cost high carbon projects) is not in investors' best



interests, thereby moving away from carbon risk rather than entire sectors of the economy. We have been working with a number of clients over the quarter to discuss divestment pressures.

More recently, June saw the launch of Mercer's report 'Investing in a Time of Climate Change', which we contributed to as one of 18 global research partners and only two asset managers. The report made it clear that for all future scenarios evaluated, changes in returns could be seen when adding the effects of climate change policy, low carbon technology, changes in natural resource availability and climate impacts to investment calculations.

Developed market equities showed the potential for loss of returns without active management of carbon risk in all scenarios, whereas potential opportunities could be seen for emerging market equities supported by a strong decarbonisation scenario. A more detailed summary of the report and its key findings will be provided in our white paper and the full public report is available on the Mercer website¹. Collaborating on a project such as this has added to our research efforts and provided a useful framework for climate change discussions with investee companies.

Our work plan for the next 12 months will comprise broad portfolio footprint analysis alongside more detailed company level work. In conjunction and collaboration with our investment managers, we will focus initially on the following carbon-intensive sectors: metals & mining; oil & gas; chemicals; and, agriculture. The company level analysis will seek to understand exposures, opportunities and governance capabilities to address climate change and the transition to a low carbon economy. Engagement with companies in these sectors has begun but we think that this will be the start of many more conversations on carbon in the years ahead.

Our research and engagement efforts seek to provide important insights into company resilience and maximisation of opportunities over the coming years, which we expect to be characterised by regulatory and consumer demand changes. Already we are seeing companies offer greater numbers of goods and services designed for a carbon constrained world, and we expect to see more as our work continues. We look forward to updating you as this work progresses over the coming quarters.

¹ <http://www.mercer.com/content/mercer/global/all/en/insights/focus/invest-in-climate-change-study-2015.html>.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	22	Companies	7	Companies	3
Resolutions	214	Resolutions	17	Resolutions	5

The focus on climate change and the transition to a low carbon economy is intensifying

During the quarter, we attended key policy events in Paris in the run up to the international climate negotiations and supported important industry research

More work is under way, looking at the risks and opportunities arising from climate change for the companies within our portfolios

Firmwide Company Engagement

Engagement Type	Company
Corporate Governance	Kering SA, Netflix, Inc.
AGM or EGM Proposals	Facebook Inc., Google Inc., Kering SA, L'Oreal SA, LinkedIn Corporation, Netflix, Inc., salesforce.com, inc.
Executive Remuneration	ARM Holdings plc, Burberry Group plc

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

Company	Engagement Report
Netflix, Inc.	<p>We engaged with the company ahead of the AGM to discuss a proposed increase in authorised share capital in order to accommodate a stock split. We also discussed three shareholder proposals to introduce proxy access, to adopt a simple majority voting standard and to declassify the board. The board has previously decided not to implement governance changes despite majority support for shareholder resolutions, considering them to be inappropriate. We also explored the unique pay practices which have been designed to support the company's culture and promote exceptional performance. This was a positive discussion and we look forward to developing our relationship with the company in the future.</p>

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Amazon.com	Annual 10/06/15	3	We supported a shareholder resolution requesting the introduction of proxy access as we believe it is in shareholders' best interests.
Netflix Inc	Annual 09/06/15	5	We supported a shareholder resolution to introduce proxy access as we believe it is in shareholders' best interests.
Netflix Inc	Annual 09/06/15	6	We supported a shareholder resolution to introduce majority voting for director elections as we believe it will improve board accountability.
Companies		Voting Rationale	
AIA Group, ARM Holdings, Amazon.com, Atlas Copco A, Bluebird Bio Inc, Facebook, Hermes International, Illumina, Intuitive Surgical, Kering, L'Oreal, LinkedIn Corp A, Netflix Inc, Rocket Internet SE, Salesforce.com, Seattle Genetics, Splunk Inc, Tencent, Tesla Motors, TripAdvisor, Twitter Inc, Workday Inc		We voted in favour of routine proposals at the aforementioned meeting(s).	

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Amazon.com	Annual 10/06/15	4-6	We opposed three shareholder resolutions as they were overly prescriptive and of limited benefit to shareholders.
Facebook	Annual 11/06/15	3	We opposed the Equity Incentive Plan as it enables repricing which we do not believe is aligned with shareholders.
Facebook	Annual 11/06/15	4-6	We opposed three shareholder resolutions which were overly prescriptive.
Kering	MIX 23/04/15	E.11-E.13	We opposed three resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.
Kering	MIX 23/04/15	E.15	We voted in line with management by opposing a resolution to increase capital.
LinkedIn Corp A	Annual 03/06/15	3	We opposed the Equity Incentive Plan as it allows repricing which we do not believe is aligned with shareholders.
LinkedIn Corp A	Annual 03/06/15	5	We opposed a shareholder resolution on board diversity as it is overly prescriptive.
Netflix Inc	Annual 09/06/15	7	We opposed the declassification of the Board as after speaking to the company we were satisfied with the current board structure.
Tesla Motors	Annual 09/06/15	3, 4	We opposed two shareholder proposals which are too prescriptive.
Companies		Voting Rationale	
ARM Holdings		We opposed the proposal that gave the company the right to issue up to two-thirds of its issued share capital via a rights issue under Section 551 of the Companies Act 2006. We do not believe that it is in our clients' best interests to forego the right to vote on a large rights issue at an EGM.	

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Hermes International	MIX 02/06/15	E.14, E.15	We abstained on two resolutions to grant stock options and issue restricted shares due to a lack of disclosure.
Kering	MIX 23/04/15	E.8, E.10	We abstained on two resolutions which sought authority to issue equity.
L'Oreal	MIX 22/04/15	E.8	We decided to abstain on the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.

Votes Withheld

We did not withhold on any resolutions during the period.