Aviva Investors Corporate Governance and Corporate Responsibility Voting Policy

2012

In order to help readers of this document, the contents of this Policy are set out in the order of the UK Corporate Governance Code (Part 1), with text in boxes highlighting areas where the particular approach of Aviva Investors is worth noting. Part 2 onwards deals with issues that are not in the UK Corporate Governance Code but where Aviva Investors has guidelines for good practice. These are variously based on the ICGN Global Corporate Governance Principles, the ABI Guidelines on Responsible Investment Disclosure and other national and international good practice guidelines.

Contents

Introduction

Aviva Investors approach

Corporate governance, engagement and proxy voting form an integral and active part of Aviva Investors' approach to managing, protecting and enhancing the long-term value of the funds it invests. They also form part of our approach to our stewardship responsibilities, particularly in relation to the Financial Reporting Council's UK Stewardship Code. This policy should be read alongside our Stewardship Policy which sets out how we meet the principles of the UK Stewardship Code.

Confidence in the integrity and quality of management is an essential ingredient for investor commitment and long-term support. Companies which are well governed and operate in a responsible and sustainable way should have the culture, attitude and transparent mechanisms in place to support their long-term health and shareholder value. Good corporate governance practice establishes the frameworks that facilitate the agency relationship that exists between shareholders and the management of their companies.

Aviva Investors aims to make a positive contribution to the evolution of good corporate governance, not least by taking an active interest in the companies in which we invest and by protecting the rights of shareholders. By extension, our longer-term approach embraces involvement in the development, enhancement and understanding of appropriate standards and industry best practice.

> *"It matters to all of us that companies should be governed effectively. The prosperity of many of those associated with the company - whether directly as managers and employers, or indirectly as shareholders, suppliers, and customers - depends on it"*
>
> Jonathan Charkham, Keeping Good Company, 1994

Aviva Investors 2012 policy

The UK Corporate Governance Code (formerly the Combined Code on Corporate Governance) forms the basis for the Aviva Investors policy on corporate governance and good practice. This has developed alongside and merged with the Aviva Investors approach that has been developed over decades of taking a leading role in the promotion and development of good corporate governance. The International Corporate Governance Network's Global Corporate Governance Principles also form part of this policy.

Aviva Investors voting action on matters of concern

While we normally hope to support company management, in circumstances where companies do not provide sufficient explanation and justification of issues (e.g. non-compliance with best practice) or proposals (e.g. on dilution) that are potentially of concern, or where we have concerns about or we disagree with the company on issues, we will not hesitate to withhold support and oppose management.

As the UK Corporate Governance Code is based on a "comply or explain" approach, we pay particular attention to company's explanations of any departures from compliance with the Code's recommendations, and consider each such explanation on its merits.

Where we consider significant issues exist or remain unresolved we may also, if appropriate, take action in addition to voting; for example, through attendance and participation at shareholder meetings. However, where possible and practical, we will engage with companies prior to opposing management in order to make considered voting decisions giving due weight to all relevant factors drawn to our attention. Aviva Investors will have regard to the merits of a company's explanations in taking a pragmatic and reasoned approach to assessing company policy and practice in context. We have an integrated approach to corporate governance and our Corporate Governance team work closely with our fund managers and investment analysts when making voting decisions and when considering other aspects of corporate governance.

Aviva Investors approach

As with other areas of non-financial information (e.g. internal controls or the Operating and Financial Review/business review), a focus by companies on the use of considered and meaningful disclosure, avoiding 'boilerplate' approaches, is important. Companies are also asked to have regard to the guidance set out in this policy on the approach Aviva Investors takes in interpreting the UK Corporate Governance Code.

- Alongside these we have regard to the policies and industry guidelines issued by or in association with the appropriate investor protection agencies, (such as the Association of British Insurers and National Association of Pension Funds). For example:
- The Pre-emption Group Guidelines.
- The Institutional Shareholders' Committee's "The Responsibilities of Institutional Shareholders and Agents - Statement of Principles".
- The ABI Executive Remuneration Guidelines.
- The Joint statement by the ABI and NAPF "Best Practice on Executive Contracts and Severance".
- The ABI Disclosure Guidelines on Responsible Investment Disclosure
- The Quoted Companies Alliance's Corporate Governance Guidelines for Smaller Companies

To the extent our approach to smaller companies may differ from that for larger companies, our approach to smaller companies is further explained in Part 2 of this policy. In principle however, we are keen to see all companies meet UK Corporate Governance Code requirements.

Part 1 Companies

SECTION A: LEADERSHIP

A.1 The Board

Main Principle

Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company.

Supporting Principles

The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

> **Aviva Investors approach**
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> We attach particular importance to the board setting appropriate standards and values for the company. Part 4 of this policy outlines the kind of disclosures that we look for in this respect.

All directors must act in what they consider to be the best interests of the company, consistent with their statutory duties

Code provisions

A.1.1 The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

A.1.2 The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.

A.1.3 The company should arrange appropriate insurance cover in respect of legal action against its directors.

A.2 Division of Responsibilities

Main Principle

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

Code Provision

A.2.1 The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

A.3 The Chairman

Main Principle

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

Supporting Principles

The chairman is responsible for setting the board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The chairman should also promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors.

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders.

Code Provision

A.3.1 The chairman should on appointment meet the independence criteria set out in B.1.1 below. A chief executive should not go on to be chairman of the same company. If exceptionally a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.

Aviva Investors Approach

In addition to the chairman being independent on appointment, in the interests of maintaining a balanced unitary board with sufficient checks and balances, we have a preference for non-executive chairmen and will be unlikely to support executive chairmen or combined chairman/CEO roles on a long-term basis.

Where there is an executive chairman, the senior non-executive director should hold meetings of the non-executive directors at least once a year without executives present.

Provision A.3.1 should also be taken to embrace 'other executive directors' in addition to the chief executive. That is, CEOs and other executive directors should not go on to become chairmen. Executives who become non-executive directors or chairmen will generally not be considered independent.

We will attach considerable importance to the merits of the explanations and justifications given for chairmen who are not independent upon appointment but it should be noted that we are generally not supportive of such appointments.

A.4: Non-executive Directors

Main Principle

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Supporting Principles

Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning.

Code Provisions

A.4.1. The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate.

Aviva Investors approach

We attach particular importance to the senior independent director (SID) role where the chairman is not considered independent (that is, for reasons other than the chairmanship itself)

A.4.2. The chairman should hold meetings with the non-executive directors without the executives present. Led by the senior independent director, the non-executive directors should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate.

A.4.3. Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if they have any such concerns.

SECTION B: EFFECTIVENESS

B.1: The Composition of the Board

Main Principle

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Aviva Investors approach

As part of a pragmatic approach to assessing issues around independence, Aviva Investors will take into account the overall balance of the whole board.

Companies should explain to shareholders how the skills, experience, independence and knowledge of each director contribute to the effectiveness of the board.

Supporting Principles

- The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy.

- The board should include an appropriate combination of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.

- The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees.

- No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee.

Code Provisions

B.1.1. The board should identify in the annual report each non-executive director it considers to be independent [1]. The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:

- has been an employee of the company or group within the last five years;
- has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
- has close family ties with any of the company's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the board for more than nine years from the date of their first election.

Aviva Investors approach

Where a non-executive director has not been selected to join the board through a process in accordance with principle B2 below, this will be deemed relevant to the determination of independence.

Where non-executive directors appear to have disproportionately high fees this may be considered as affecting independence.

We believe the spirit of this provision requires 'clear blue water' between the termination of a material relationship affecting independence and the appointment to the board.

[1] A.3.1 states that the chairman should, on appointment, meet the independence criteria set out in this provision, but thereafter the test of independence is not appropriate in relation to the chairman.

B.1.2. Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors.

B.2: Appointments to the Board

Main Principle

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

Supporting Principles

The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.

The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.

Aviva Investors Approach

Diversity

One important area of focus for 2012 and beyond is board diversity, including but not confined to gender diversity . Boards should take sufficient account of the mix of skills, experience and background that is required to optimise board performance, and the UK Corporate Governance Code already specifically mentions the benefits to boards of diversity, including on gender. The 2010 review by Lord Davies ("Women on Boards", published February 2011) highlighted the under-representation of women in the UK corporate boardroom and the business case for addressing this..

Aviva Investors welcomed the recommendations of the Davies review as a balanced and pragmatic package. Recommendations include:

- that all chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2013 and 2015, that FTSE 100 companies should aim for a minimum of 25% women, and that all Chief Executives should review the percentage of women they aim to have on their Executive Committees.
- that quoted companies should disclose each year the proportion of women on the board, women in senior executive positions and women employees in the whole organization
- that the UK Corporate Governance Code should require listed companies to have a policy on boardroom diversity and to publish the policy, measurable objectives, and progress made each year.
- A focus on the importance of the search and appointment processes, and of the role of shareholders in considering company reporting and board appointments.
- Chairmen will be encouraged to sign a charter supporting the recommendations.

Aviva Investors expects companies to take the benefits of board diversity into account in considering board composition and new appointments, and to disclose its policy and aspirations on diversity including gender diversity.

Succession

Succession related issues and problems have been a frequent source of concern for Aviva Investors.

Companies should disclose to shareholders that the necessary arrangements are in place to manage succession effectively. This should be done in context, recognising that the potential value and recognition associated with this will not be achieved through boilerplate disclosures.

Companies with effective succession planning and management are seen to perform better during periods of transition. Companies should adopt a proactive approach that shows that the foundations are in place to deliver effective succession management.

Companies should also be sensitive to the need to cultivate leadership talent within the business. Overall, companies that nurture their future top level talent internally are generally perceived to be likely to out-perform those that don't over the longer term. That is not to say that selective external recruitment of executives can't deliver benefits, but rather that it should not be the automatic preference of choice.

This clearly emphasises the need for a link between the approach at board level and the development of executive talent within the business. Again boards should see this as integral to ensuring that the company has the right people and talent in place to meet its long-term objectives (see first supporting principle in section A.1)

Code Provisions

B.2.1. There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

Aviva Investors approach

The committee should not be chaired by any executive director, nor by a board chairman who is not considered independent (that is, for reasons other than the chairmanship itself).

B.2.2. The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

B.2.3. Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.

B.2.4. A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director.

B.3: Commitment

Main Principle

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

Code Provisions

B.3.1. For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises. A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report.

Aviva Investors approach

Where a chairman has significant other commitments the nomination committee should assure itself that the normal or special time commitments of the chairman's role can be met. Aviva Investors will take into account all other commitments of chairmen in this context. Companies should provide full justification and consult shareholders in advance when chairmen are considering taking up significant additional responsibilities, including the chair of another listed company

B.3.2. The terms and conditions of appointment of non-executive directors should be made available for inspection. The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and the board should be informed of subsequent changes.

Aviva Investors approach

A summary of the main provisions of the terms and conditions of appointment of non-executive directors should be disclosed to shareholders, and the full terms and conditions should be available to shareholders on request.

Aviva Investors will carefully assess individual non-executive directors' apparent ability to commit sufficient time to the role. In doing so it will have regard to the comfort provided to us as shareholders.

As a rule of thumb, non-executive directors who already have four other material non-executive directorships are assumed to be fully occupied.

B.3.3. The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.

Aviva Investors approach

Aviva Investors will have regard to time implications and potential conflicts that may arise from other external roles, including significant positions at other public or private companies. In general, Aviva Investors would not support full time executive directors taking on any chairmanship of a FTSE company, nor more than one non-executive directorship.

B.4: Development

Main Principle
All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

Supporting Principles
The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfill their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities.

To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.

Code Provisions
B.4.1. The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.

B.4.2. The chairman should regularly review and agree with each director their training and development needs.

B.5: Information and Support

Main Principle
The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Supporting Principles
The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.

Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.

The company secretary should be responsible for advising the board through the chairman on all governance matters.

Code Provisions
B.5.1. The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.

B.5.2. All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the board as a whole.

> **Aviva Investors approach**
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> We consider that executive directors of the company should not also act as the Company Secretary.

B.6: Evaluation

Main Principle

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Supporting Principles

The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.

Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).

> **Aviva Investors approach**
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> Boards should have particular regard to the link between performance evaluations and the ongoing development and updating of individuals' skills and knowledge (see section B.4), the need to maintain an appropriate balance of skills and experience on the board (see section B.1) and the need for effective succession planning and management (see section B.2).

Code Provisions

B.6.1. The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.

> **Aviva Investors approach**
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> Openness to substantive and meaningful board evaluations is an indicator of a healthy board dynamic. As with other aspects of disclosure, boilerplate statements and compliance with minimum disclosure standards is unlikely to be given much weight and, to the extent possible, disclosure should seek to give an indication of the outcomes of the evaluation.

B.6.2. Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. A statement should be made available of whether an external facilitator has any other connection with the company .

B.6.3. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.

B.7: Re-election

Main Principle

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Code Provisions

B.7.1. All directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. Non-executive directors who have served longer than nine years should be subject to annual re-election. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.

Aviva Investors approach

We recognise that companies may need time to make changes to accommodate annual re-election of all directors (for example, changes to Articles of Association). We will therefore be looking initially for articulation of the company's plans regarding this provision. If the company decides not to comply, we will expect a full explanation of this, and we will take this into account in forming our own view as to whether we concur with the reasons for any non-compliance.

B.7.2. The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.

SECTION C: ACCOUNTABILITY

C.1: Financial and Business Reporting

Main Principle

The board should present a balanced and understandable assessment of the company's position and prospects.

Supporting Principle

The board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

Code Provisions

C.1.1. The directors should explain in the annual report their responsibility for preparing the annual report and accounts and there should be a statement by the auditor about their reporting responsibilities.

C.1.2. The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company.

C.1.3. The directors should report in annual and half-yearly financial statements that the business is a going concern, with supporting assumptions or qualifications as necessary.

C.2: Risk Management and Internal Control

Main Principle

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

Code Provision

C.2.1. The board should, at least annually, conduct a review of the effectiveness of the company's risk management and internal control systems and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls.

Aviva Investors approach

We would emphasise the point that the "principles-based" 2005 Turnbull guidance on internal controls is intended to embrace sound business practice and we share the view that those companies which have derived most benefit from its application are those who see embedded risk management and internal control as an integral, ongoing part of running the business.

In that context it is important that Boards review their application of the guidance on a continuing basis and look on the internal control statement as an opportunity to communicate, in a meaningful way, to their shareholders how they manage risk and internal control.

Linked to the business review and disclosures on risk (which should cover all material risks, including those relating to tax), boards should take the opportunity in the internal control statement to help shareholders understand the risk and control issues facing the company, explain the approach taken to risk management and internal controls, how the effectiveness of that is reviewed and maintained (including action being taken to remedy any significant failings or weaknesses identified and the approach to addressing related internal control issues).

"Boilerplate" narrative statements and compliance with minimum disclosure requirements are unlikely to provide shareholders with reasonable assurance, meaningful information, or comfort that a misleading impression is not being given.

C.3: Audit Committee and Auditors

Main Principle

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Code Provisions

C.3.1. The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

C.3.2. The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;
- to monitor and review the effectiveness of the company's internal audit function;
- to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

C.3.3. The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. A separate section of the annual report should describe the work of the committee in discharging those responsibilities .

Aviva Investors approach

All non-executive directors should have independent access to the company's external auditors

Companies' Annual Report & Accounts should include an Audit Committee Report that provides meaningful information which assists shareholders' understanding of how the Audit Committee has operated in practice and the issues it has addressed, including:

- its assessment of the auditors' objectivity and independence and how that objectivity and independence is safeguarded;
- areas of potential conflicts of interest for the auditors between audit work and other work that they perform for the company, providing an explanation of these and details of how the company is mitigating such conflicts;
- a sufficiently detailed breakdown and explanation of the fees paid to the Auditor for audit and non-audit work to enable a fair understanding of the types and nature of the work undertaken;
- its policy and approach to approving non-audit services, including when specific prior approval is required;
- its assessment of any issues relevant to shareholders' proper understanding of the company's accounting policies and practices (or changes to them), as well as its risk management and internal control arrangements;
- the key findings of the reviews it carries out under its terms of reference; and
- any other relevant matters or conclusions of significance.

C.3.4. The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

C.3.5. The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

Aviva Investors approach

The Audit Committee Report should disclose any material reliance placed by the internal audit function on the company's auditors or on their audit work (or vice versa).

Where the company's auditors are changed without shareholder approval (for instance, mid-term), the company should provide a clear and substantive explanation of the reasons for the change, the circumstances and the process involved.

C.3.6. The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

Aviva Investors approach

Auditors and the Audit

Statutory Auditors play an essential role in the governance framework, with privileged access inside companies. In line with Company Law and the House of Lord's opinion in the Caparo case, auditors need to act clearly and specifically on behalf of and in the interests of shareholders. It is the key function of auditors to inquire, so far as possible, into whether the financial information as to the company's affairs prepared by the directors accurately reflects the company's position - a true and fair view - in order:

(i) to protect the company itself from the consequences of undetected errors or, possibly, wrongdoing; and

(ii) to provide shareholders with reliable intelligence on the company's affairs, that is timely, relevant and sufficient to enable shareholders to scrutinise management's conduct and disclosures and to exercise their collective powers through general meetings.

Auditor independence

In satisfying this duty, auditors need to provide evidence of the necessary professional judgement, critical approach, level of objectivity and ability to expose weaknesses that is reasonably expected of them. Auditor independence is essential in order to allow auditors to:

(i) focus on acting with integrity, exercising objectivity and professional scepticism;

(ii) do so in the clear interests of the audit's beneficiaries (the shareholders), free from those pressures (e.g. management pressure) and other factors (e.g. commercial conflicts) that might or do compromise the auditor' ability to make robust and unbiased decisions; and

(iii) ensure that discovered breaches and other matters of emphasis or concern are reported.

C.3.7. The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

Non-audit work

Auditor independence is a vital element of the audit framework and of the assurance it provides. In view of the importance of maintaining an objective and professional relationship between directors and auditors, it is fundamental that this independence be preserved. Independent audit committee responsibility for overseeing the company's interaction with the auditors is essential.

Large fees paid to auditors for non-audit work may compromise their independence. In that context the potential economic or perceived conflicts that can arise from non-audit work (e.g. around tax advisory work, which has been an increasingly serious area of concern), need to be clearly and effectively addressed.

Companies should explain the type of non-audit work undertaken and the controls placed by the audit committee over their use of the auditors outside the scope of the statutory audit or other related work required under relevant regulatory regime. Where the level of non-audit fees exceeds the audit fees and/or is significant (particularly where that is part of a trend) we will look more closely at the basis and breakdown of such fees. Assessment of non-audit fees will be undertaken on a pragmatic basis. The substance and clarity of related disclosure and nature of the non-audit work undertaken, as well as to the policy and practice that is applied will be important.

SECTION D: REMUNERATION

D.1: The Level and Components of Remuneration

Main Principle

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Aviva Investors approach

Given the rate of executive pay inflation and quantums over recent years and the perceived view of selective benchmarks in that dynamic remuneration committees should explain how their benchmarks are selected, the rationale for them and how the company is positioned in relation to those benchmarks.

Given concerns over escalating remuneration, widening pay differentials and rewards for failure, remuneration committees need to ensure a prudent approach is maintained. Particular emphasis should be placed on the need to:

Avoid paying more than is necessary (D.1 Main Principle);

(b) use company comparisons with caution given the risk of ratcheting up pay (D.1 Supporting Principle);

(c) be sensitive to pay and employment conditions elsewhere in the group and the widening differentials (D.1 Supporting Principle);

(d) avoid rewarding departing directors for poor performance (Provision D.1.4); and

(e) take a robust approach on mitigation (Provision D.1.4).

The fundamental principle which governs our approach to directors' pay is that exceptional pay should only be for exceptional performance and value creation.

Awards received by executives, under share schemes (or their equivalents), should be clearly linked to rewarding ongoing performance that creates additional shareholder value.

Special or discretionary payments, such as on recruitment or for a completed transaction (which may in itself not be value enhancing) may give rise to concerns. We will generally only support special or discretionary payments if they are:

- clearly justified by exceptional circumstances;
- closely aligned to performance over a measurable period after the event; and
- subject to a shareholder vote.

Companies that make recruitment payments that are paid in cash or are not subject to performance conditions should clearly demonstrate that these payments only compensate executives for incentives that have already been earned (e.g. vested). All other awards should be subject to appropriately challenging performance conditions.

Finally, as highlighted in Part 4 of this policy, our voting approach is also closely aligned with the ABI Guidelines on Responsible Investment Disclosure. Section 3.1 of those guidelines highlights that companies should state in remuneration reports "whether the remuneration committee is able to consider corporate performance on environmental, social and corporate governance (ESG) issues when setting remuneration of executive directors. If the report states that the committee has no such discretion, then a reason should be provided for its absence". Our particular focus here is on those companies where we believe ESG issues can be a particularly material component of long term shareholder value creation.

Supporting Principle

The performance-related elements of executive directors' remuneration should be stretching and designed to promote the long-term success of the company.

The remuneration committee should judge where to position their company relative to other companies. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance.

They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.

Code Provisions

D.1.1. In designing schemes of performance-related remuneration for executive directors, the remuneration committee should follow the provisions in Schedule A to this Code.

D.1.2. Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report[2] should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.

D.1.3. Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options or other performance-related elements. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence (as set out in provision B.1.1).

D.1.4. The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.

D.1.5. Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.

Aviva Investors approach

Aviva Investors reviews its policy on service contracts on a regular basis to ensure that it

[2] *As required for UK incorporated companies under the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008.*

reflects best practice.

Companies have had since 1998 to implement a policy of reducing existing service contract periods and setting new service contracts at one year or less. Companies should now have this as a standard policy.

Where in exceptional circumstances it is necessary to have an initial service contract in excess of one year, that period should not generally exceed two years and should be fully explained and justified to shareholders at the earliest opportunity.

The broad aim of dealing with early termination cases is to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance. Companies should take a robust line on reducing compensation to reflect departing directors' obligations to minimise their loss (i.e. companies should have a sensible mitigation policy). Current arrangements whereby executives who resign, move to non-executive status or retire, receive severance packages are not consistent with good practice.

Where companies provide explicitly in the initial contract for compensation commitments (except in the case of removal for misconduct), we would expect such payments to reflect less than one year's remuneration.

Aviva Investors would not generally support change in control provisions that are more advantageous than standard provisions specified in the service contract.

D.2: Procedure

Main Principle

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Aviva Investors approach

There is a clear expectation on institutional investors to actively participate in executive pay issues. Aviva Investors will continue to express its views to companies at regular meetings with the company and by actively considering and voting on remuneration issues.

The Directors Remuneration Report Regulations 2002 provide that, UK listed companies should prepare a detailed directors' remuneration report for shareholder approval (an advisory vote).

Aviva Investors will assess board pay as a total package i.e. basic pay, benefits, bonuses, incentives, pensions and take a view of these arrangements in context, judged against company performance. Voting decisions on the remuneration report will be taken on the basis of the overall assessment and of the significance of issues, i.e. it will be a 'weighted' decision as to whether a particular concern is sufficiently important for us to vote against the report.

As a general principle we expect companies to comply with the spirit of established guidelines. As a minimum, we would consider best practice to include compliance with:

- the Directors Remuneration Report Regulations 2002;
- the Association of British Insurers' (ABI) guidelines on executive remuneration;
- the joint ABI and National Association of Pension Funds statement on service

contracts; and

- the UK Corporate Governance Code.

Our own policy stance will also, of course, guide and influence our voting decisions.

We will continue to vote against resolutions to appoint and re-appoint directors and other resolutions in addition to voting against the resolution to approve the remuneration report where concerns are considered to be sufficiently significant to warrant such action.

Supporting Principles

The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration. Where executive directors or senior management are involved in advising or supporting the remuneration committee, care should be taken to recognise and avoid conflicts of interest.

The chairman of the board should ensure that the company maintains contact as required with its principal shareholders about remuneration.

Code Provisions

D.2.1. The board should establish a remuneration committee of at least three, or in the case of smaller companies[3] two, independent non-executive directors. In addition the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board [4]. Where remuneration consultants are appointed, a statement should be made available [5] of whether they have any other connection with the company.

D.2.2. The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior management' for this purpose should be determined by the board but should normally include the first layer of management below board level.

D.2.3. The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive.

Aviva Investors approach

How non-executive director remuneration is determined should be disclosed and particular care

[3] *See footnote 6.*
[4] *This provision overlaps with FSA Rule DTR 7.2.7 R (see Schedule B).*
[5] *See footnote 7.*

should be taken to ensure conflicts do not arise.

In reviewing the remuneration report, the levels and structure of non-executive fees will be assessed in context and against normal market practice.

D.2.4. Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules [6]) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.

[6] *Listing Rules LR 9.4; available at http://fsahandbook.info/FSA/html/handbook/LR/9/4*

SECTION E: RELATIONS WITH SHAREHOLDERS

E.1: Dialogue with Shareholders

Main Principle

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place [7].

Aviva Investors approach

We consider that good quality dialogue between companies and shareholders is an essential element in helping improve long-term returns and the efficient exercise of governance responsibilities. Engagement with the companies we invest in forms an integral part of our approach to our stewardship responsibilities, and this approach is set out in our Stewardship Policy which should be read in conjunction with this policy.

Supporting Principles

Whilst recognising that most shareholder contact is with the chief executive and finance director, the chairman should ensure that all directors are made aware of their major shareholders' issues and concerns.

The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.

Code Provisions

E.1.1. The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. Non-executive directors should be offered the opportunity to attend scheduled meetings with major shareholders and should expect to attend meetings if requested by major shareholders. The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

E.1.2. The board should state in the annual report the steps they have taken to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.

E.2: Constructive Use of the AGM

Main Principle

The board should use the AGM to communicate with investors and to encourage their participation.

[7] *Nothing in these principles or provisions should be taken to override the general requirements of law to treat shareholders equally in access to information.*

Code Provisions

E.2.1. At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts. For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote should make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

E.2.2. The company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted. For each resolution, where a vote has been taken on a show of hands, the company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company:

- The number of shares in respect of which proxy appointments have been validly made;
- The number of votes for the resolution;
- The number of votes against the resolution; and
- The number of shares in respect of which the vote was directed to be withheld.

Aviva Investors approach

The chairman of a shareholder meeting is deemed to have a duty to ascertain the sense of the meeting as regards the matters before it (including proxy levels) and, if appropriate, call a poll. In particular, the chairman should call a poll if the result on a show of hands appears to contradict the results suggested by the proxy votes. A guidance note on this issue is available from ICSA.

E.2.3. The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend.

E.2.4. The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

SCHEDULE A

THE DESIGN OF PERFORMANCE-RELATED REMUNERATION FOR EXECUTIVE DIRECTORS

The remuneration committee should consider whether the directors should be eligible for annual bonuses. If so, performance conditions should be relevant, stretching and designed to promote the long-term success of the company. Upper limits should be set and disclosed. There may be a case for part payment in shares to be held for a significant period.

The remuneration committee should consider whether the directors should be eligible for benefits under long-term incentive schemes. Traditional share option schemes should be weighed against other kinds of long-term incentive scheme. Executive share options should not be offered at a discount save as permitted by the relevant provisions of the Listing Rules.

In normal circumstances, shares granted or other forms of deferred remuneration should not vest, and options should not be exercisable, in less than three years. Directors should be encouraged to hold their shares for a further period after vesting or exercise, subject to the need to finance any costs of acquisition and associated tax liabilities.

Aviva Investors approach

A key rationale for equity incentive schemes is to create better alignment between executives and shareholders. We therefore look to see participants in executive share schemes build up and retain meaningful shareholdings of vested shares proportionate to the opportunity made available to them under the incentive schemes.

Any new long-term incentive schemes which are proposed should be approved by shareholders and should preferably replace any existing schemes or, at least, form part of a well considered overall plan incorporating existing schemes. The total rewards potentially available should not be excessive.

Aviva Investors approach

Shares issued and commitments to issue new shares under all employee share schemes should not exceed an amount equivalent to 10% of the issued ordinary share capital of the company in any rolling 10-year period.

Within the 10% limit, shares issued and commitments to issue shares under any discretionary or executive scheme should not exceed an amount equivalent to 5% of the issued ordinary share capital of the company in any rolling 10-year period, unless exceptional circumstances apply and such excess is subject to more demanding performance conditions and any derogation receives shareholder approval.

Aviva Investors' policy is to:

1. treat newly issued shares and treasury shares as dilutive
2. expect appropriate disclosures on the number of shares held in employee share trusts (and similar structures) and the maximum number of shares that may be held. These disclosures should assist shareholders in the evaluation of the overall use of shares for remuneration purposes and explain the company's strategy in this regard.

Payouts or grants under all incentive schemes, including new grants under existing share option schemes, should be subject to challenging performance criteria reflecting the company's objectives, including non-financial performance metrics where appropriate. Remuneration incentives should be compatible with risk policies and systems.

Aviva Investors approach

Performance measures should reflect and be aligned with the company's strategy. There should be differing levels of performance targets so that the largest rewards are made for exceptional performance (i.e. vesting scales). We would normally support schemes only where, in our opinion, the criteria are appropriate in the context of the company and the performance requirements are sufficiently demanding.

Performance targets must be disclosed i.e. we would not support schemes based on undisclosed internal performance measures. Performance conditions should continue to apply in the event of a takeover or reorganisation. Where schemes have a facility for matching shares, matching awards should be subject to performance conditions. Retesting of performance measures, whether explicit or implicit, is not welcome.

Of Total Shareholder Return and Earnings Per Share, our preferred performance measure is Total Shareholder Return (share price plus dividends). However, our principle criterion for performance measures is that of alignment with company strategy.

It is also our view that a relative target, e.g. against the sector, is preferable to an absolute performance target. Where the company is being compared to an index or sector, we would expect its performance to be above median, that is, 50th percentile and above, before any vesting took place. Ideally, there should be a secondary financial measure (i.e. an underpin) to ensure that awards are made only where there has been an improvement in the company's underlying performance.

Aviva Investors will approve schemes only where performance conditions reflect above-average performance and value creation.

Grants under executive share option and other long-term incentive schemes should normally be phased rather than awarded in one large block.

Aviva Investors approach

Options should not be re-priced. In addition some share option schemes allow for options to be surrendered and re-granted at a lower price. We also discourage this practice.

Consideration should be given to the use of provisions that permit the company to reclaim variable components in exceptional circumstances of misstatement or misconduct.

Aviva Investors approach

Variable elements of remuneration should be subject to appropriate levels of deferral and to clawback potential.

In general, only basic salary should be pensionable. The remuneration committee should consider the pension consequences and associated costs to the company of basic salary increases and any other changes in pensionable remuneration, especially for directors close to retirement.

Aviva Investors approach

Pensions are a significant element of remuneration, which are not usually linked to performance and which can create potentially significant costs for a company. Pension benefits should be clearly structured to form part of an integrated, balanced and prudent approach to overall remuneration. Where executive pension arrangements vary from the general pension scheme(s), this should be disclosed and explained in context.

The effects of special pension terms and arrangements should be taken into account in assessing the balance and/or structure of the overall remuneration package. They should also be factored in to the consideration given by the Remuneration Committees of the pension consequences and associated costs to the company of proposed changes in pensionable pay.

Whilst recognising the contractual position of existing pension arrangements, Aviva Investors believes future (new) executive arrangements should be more closely aligned with arrangements for employees generally, at least up to the lifetime limit. Beyond the lifetime limit, additional executive pension arrangements should still be broadly equivalent to the arrangements available to employees generally. All arrangements should be clearly disclosed. Appropriate disclosure would include what the arrangements are, how they are provided and the cost of providing the benefits.

Part 2 Other best practice recommendations and supporting guidelines

Pre-emption rights

- Pre-emption rights are seen as a key investor protection measure. The pre-emption group guidelines provide a basis of understanding between companies and investors on the circumstances in which pre-emption rights may be dis-applied, as allowed by section 95 of the Companies Act 1985 and the Stock Exchange's Listing Rules.
- Companies should be particularly cautious of proposed mechanisms, whether devised internally or by investment banks, brokers and other advisers, which circumvent pre-emption rights, such as vendor placings, cash box structures and convertible bonds, warrants or equivalent instruments.
- Where issues arise on the application of the Pre-emption Guidelines or where there may be a perception that a proposed scheme or issuance is effectively circumventing shareholders' pre-emptive rights, a facility exists for consultation with the Secretary of the ABI Investment Committee. Companies are urged to make use of this facility.

Purchase of own shares

- ABI guidelines require that companies should state explicitly that any share repurchases should be earnings or NAV enhancing. However, Aviva Investors will judge each case on its own merits. Where Aviva Investors is in favour of companies returning cash to shareholders, especially where (the company) investing such cash would itself be dilutive to earnings or assets, our support will be given in the absence of such a statement. The purchase of shares should be in the interests of all shareholders.

Political donations

- Aviva Investors' view is that companies should not make political donations.

Amendments to Articles of Association

- Aviva Investors expects companies to have articles that reflect current best practice.
- Memoranda and Articles of Association regulate the external and internal affairs of companies. The powers given to directors and boards are encompassed within the Articles of Association. It is therefore important that shareholders and institutional investors are aware of the powers being granted to directors and the rights of shareholders.
- Aviva Investors would question any change that appears unreasonably to increase the discretion of directors in the exercise of their power and hence lessen the influence of shareholders.

Smaller companies

- As a matter of principle, we are keen to see all companies meet UK Corporate Governance Code requirements. However, we recognise that in some cases, particularly for smaller companies, there may be practical or cost reasons for non-compliance. For example, to insist on a small board appointing three non-executive directors.
- Our approach to compliance by smaller companies is to take into account each company's circumstances. Where appropriate, we will request companies to move closer to full

compliance. It is recognised that for smaller companies this may not be achievable immediately or without additional expense and, in these circumstances, companies will be given time to achieve compliance.

- Smaller companies may find it helpful to refer to the Quoted Companies Alliance (QCA) Corporate Governance Guidelines for Smaller Quoted Companies which we consider to be useful guidance to smaller companies in considering their corporate governance.

Fixed Income Market Standards

- We consider high standards of transparency to be essential to the functioning of the fixed interest market. There is increasing concern about the approach, often adopted by issuers and their advisers, of applying the lowest standards achievable in the prevailing market conditions. To that end we endorse and support the ABI position paper "Standards in the Sterling and Euro Fixed Income Credit Markets", which seeks to provide as much clarity as possible to help inform issuers on how they can strengthen their own standing in the market. Adherence to high standards and best practice will help the market recognise quality and price accordingly.

Investment Trusts

- Boards of investment trusts should not have more than one representative from its investment managers.
- All other directors should be fully independent non-executive directors.
- The Chairman of the Board should be an independent non-executive director.
- Management contracts should not exceed 12 months.
- Information should be given on how managers are selected and reviewed

Part 3 Global corporate governance principles

Aviva Investors will apply the principles developed by the International Corporate Governance Network (ICGN) when voting on its holding in overseas companies. These principles are based on the Organisation for Economic Co-operation and Development's (OECD) Principles of Corporate Governance. Aviva Investors is a founding member of the ICGN and has been represented on the Board of Governors.

The ICGN principles are as follows:

Corporate objective

1.1 Sustainable value creation

The objective of companies is to generate sustainable shareholder value over the long term. Sustainability implies that the company must manage effectively the governance, social and environmental aspects of its activities as well as the financial. Each company needs over time to generate a return on the capital invested in it over and above the cost of that capital. Companies will only succeed in achieving this in the long run if their focus on economic returns and their long-term strategic planning include the effective management of their relationships with stakeholders such as employees, suppliers, customers, local communities and the environment as a whole.

2.0 Corporate boards

2.1 Directors as fiduciaries

Members of company boards are fiduciaries who must act in the best interests of the company and its shareholders and are accountable to the shareholder body as a whole. As fiduciaries, directors owe a duty of care and diligence to, and must act in the best interests of, the company.

2.2 Effective board behaviour

Boards need to generate effective debate and discussion around current operations, potential risks and proposed developments.

Effective debate and discussion requires:

(a) that the board has independent leadership;

(b) that the chair works to create and maintain a culture of openness and constructive challenge which allows a diversity of views to be expressed;

(c) that there is a sufficient mix of relevant skills, competence, and diversity of perspectives within the board to generate appropriate challenge and discussion;

(d) that the independent element of the board is sufficiently objective in relation to the executives and dominant shareholders to provide robust challenge without undermining the spirit of collective endeavour on the board;

(e) that the non-executive element of the board have enough knowledge of the business and sources of information about its operations to understand the company sufficiently to contribute effectively to its development;

(f) that the board is provided with enough information about the performance of the company and matters to be discussed at the board, and enough time to consider it properly; and

(g) that the board is conscious of its accountability to shareholders for its actions.

2.3 Responsibilities of the board

The board's duties and responsibilities and key functions, for which they are accountable, include:

(a) Reviewing, approving and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.

(b) Overseeing the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place; in particular, financial and operational control, and compliance with the law and relevant standards.

(c) Ensuring a formal and transparent board nomination and election process.

(d) Selecting, remunerating, monitoring and, when necessary, replacing key executives and overseeing succession planning.

(e) Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.

(f) Overseeing a formal risk management process, including holding an overall risk assessment at least annually.

(g) Monitoring and managing potential conflicts of interest of management, board members, shareholders, external advisors and other service providers, including misuse of corporate assets and related party transactions.

(h) Monitoring the effectiveness of the company's governance practices and making changes as needed to align the company's governance system with current best practices.

(i) Carrying out an objective process of self-evaluation, consistently seeking to enhance board behaviour and effectiveness.

(j) Overseeing the process of disclosure and communications, and being available for dialogue with shareholders. Carrying out these roles requires a positive working relationship with executive management but also the ability to call management independently to account. This means that the board will need at times to meet without management present.

2.4 Composition and structure of the board

2.4.1 Skills and experience

The board should consist of directors with the requisite range of skills, competence, knowledge, experience and approach, as well as a diversity of perspectives, to set the context for appropriate board behaviours and to enable it to discharge its duties and responsibilities effectively.

2.4.2 Time commitment

All directors need to be able to allocate sufficient time to the board to perform their responsibilities effectively, including allowing some leeway for occasions when greater than usual time demands are made. They should assess on an ongoing basis if new activities may limit their ability to carry out their role at the company, and boards should make substantive disclosures regarding the results of these regular assessments.

2.4.3 Independence

Alongside appropriate skill, competence and experience, and the appropriate context to encourage effective behaviours, one of the principal features of a well governed corporation is the exercise by its board of directors of independent judgement, meaning judgement in the best interests of the corporation free of any external influence on any individual director or the board as a whole. In order to provide this independent judgement, and to generate confidence that independent judgement is being applied, a board should include a strong presence of independent non-executive directors with appropriate competencies including key industry sector knowledge and experience. There should be at least a majority of independent directors on each board.

Not all non-executive directors will be fully independent of the executives or from dominant shareholders. Among the factors which can impact the independence of non-executive directors are the following:

(a) former employment with the company, unless there is an appropriate period of years between the end of the executive role and joining the board;

(b) personal, business or financial relationships between the directors and the company, its key executives or large shareholders;

(c) length of tenure; and

(d) the receipt of incentive pay which aligns the director's interests with those of the executives rather than the shareholders. While these are important factors, independence is more than anything a state of mind, requiring a disciplined and challenging approach to the role. Every company should make substantive disclosures as to its definition of independence and its determination as to whether each member of its board is independent. Any deviation from local best practice on independence should be disclosed and explained. Notwithstanding any perceived lack of independence, all directors are fiduciaries and so are obliged to exercise objective judgement in the best interests of the company. All are expected to bring independence of mind to board decisions.

2.4.4 Composition of board committees.

Every company should establish separate board subcommittees for audit, remuneration and governance or nomination matters. Companies should also give due consideration to establishing a separate and independent risk committee. The remit, composition, accountability and working procedures of all board subcommittees should be well-defined and disclosed. By establishing such subcommittees, a board does not delegate its obligations in respect of the issues covered. Subcommittees are established to assist the board to consider effectively these issues which require special competence and independence. Thus the subcommittees should report regularly and formally to the board as a whole, and the board as a whole will need to challenge and debate key issues in order to assure itself that the issues are handled appropriately. The members of these key board committees should be solely non-executive directors, and in the case of the audit and remuneration committees, solely independent directors. All members of the nominations committee should be independent from management and at least a majority independent from dominant owners.

2.5 Role of the chair

The chair has the crucial function of setting the right context in terms of board agenda, the provision of information to directors, and open boardroom discussions, to enable the directors to generate the effective board debate and discussion and to provide the constructive challenge which the company needs. The chair should work to create and maintain the culture of openness and constructive challenge which allows a diversity of views to be expressed. This role will be most effectively carried out where the chair of the board is neither the CEO nor a former CEO. Furthermore, the chair should be independent on the date of appointment as chair and should not participate in executive remuneration plans. If the chair is not independent, the company should adopt an appropriate structure to mitigate the problems arising from this. Where the chair is not independent, the company should explain the reasons why this leadership structure is appropriate, and keep the structure under review. The chair should be available to shareholders for dialogue on key matters of the company's governance and where shareholders have particular concerns. Such meetings may need to be held with the deputy chair or lead independent director either as an alternative or additionally. All board members should make themselves available for meetings with shareholders when an appropriate request is made.

2.6 Lead independent director

Companies should appoint an independent deputy chair or lead independent director. Where the chair is the CEO or former CEO or is otherwise not independent on appointment, the role of the lead independent director is of particular importance in providing independent leadership of the board. The lead independent director in such a context will have a key role in agreeing the agenda for board meetings and should have powers to call board meetings and otherwise act as a spokesperson for the independent element of the board. Even where the chair was independent on appointment, the scale of the role inevitably brings him or her closer to the executive management than the rest of the board, and the lead independent director's role is to ensure that the independent element of the board has leadership where this raises issues. The lead independent is also a crucial conduit for shareholders to raise issues of particular concern and should make him- or her-self available to shareholders appropriately in order to fulfil this role.

2.7 Company secretary

All board members must receive the information that they need properly to understand the company's operations and progress, and also need a channel to seek independent expertise and advice where appropriate. Where the position exists, the company secretary acts as a crucial resource for the chair and for the board as a whole, providing practical guidance as to their duties and responsibilities under relevant law and regulation and playing a critical role in ensuring that the board receives the information and independent advice that it needs. Where companies do not have an individual who carries out such functions they should consider appointing one.

2.8 Knowledge of company

To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff. Directors should make sufficient visits to company operations to gain appropriate insight into the culture and performance of the organisation. Board meetings should also include time to challenge an appropriate range of senior executives. Directors need sufficient and appropriate information about the performance of the company and other matters to be considered at the board with sufficient time to consider it properly.

2.9 Appointment of directors

2.9.1 Election of directors

Directors should be conscious of their accountability to shareholders, and many jurisdictions have mechanisms to ensure that this is in place on an ongoing basis. There are some markets however where such accountability is less apparent and in these each director should stand for election on an annual basis. Elsewhere directors should stand for election at least once every three years, though they should face evaluation more frequently. Shareholders should have a separate vote on the election of each director, with each candidate approved by a simple majority of shares voted, and sufficient time and information to make a considered voting decision. Information on the appointment procedure should also be disclosed at least annually. Shareholders should be able to nominate directors to the board both by proposing prospective candidates to the appropriate board committee and by directly nominating candidates on the company's proxy.

2.9.2 Information on board nominees

Companies should disclose upon nomination or appointment to the board and thereafter at least annually information on the identities, core competencies, professional or other backgrounds, recent and current board and management mandates at other companies, factors affecting independence, board and committee meeting attendance and overall qualifications of board members and nominees as well as their shareholding in the company so as to enable investors to weigh the value they bring.

Companies should also disclose the process of succession planning for the nonexecutive members of the board, as well as for senior management.

2.10 Board and director development and evaluation

A board should have in place a formal process of induction for each new director so that they are well-informed about the company early in their tenure and are able to perform effectively from as early as possible. Directors should also be enabled and encouraged to participate in ongoing training and education to assist them to fulfil their role most effectively. Every board of directors should evaluate rigorously its own performance, the performance of its committees and the performance of individual directors on a regular basis. It should consider engaging an outside consultant to assist in the process.

The performance of individual directors should be assessed at least prior to each proposed re-nomination. Companies should disclose the process for such evaluations and the principal lessons learned from the evaluation of the board and its committees.

2.11 Related party transactions and conflicts

2.11.1 Related Party Transactions

Companies should have a process for reviewing and monitoring any related party transaction. A committee of independent directors should review significant related party transactions to determine whether they are in the best interests of the company and if so to determine what terms are fair. The company should disclose details of all material related party transactions in its annual report.

2.11.2 Director Conflicts of Interest

Companies should have a process for identifying and managing conflicts of interest directors may have. If a director has an interest in a matter under consideration by the board, then the director should not participate in those discussions and the board should follow any further appropriate processes. Individual directors should be conscious of shareholder and public perceptions and seek to avoid situations where there might be an appearance of a conflict of interest.

3.0 Corporate culture

3.1 Culture and ethical behaviour

Companies should engender a corporate culture which ensures that employees understand their responsibility for appropriate behaviour. The board should seek actively to cultivate and sustain an ethical corporate culture in the company. The company should take active measures to ensure that its ethical standards are adhered to in all aspects of its business.

3.2 Integrity

The board is responsible for overseeing the implementation and maintenance of a culture of integrity. The board should encourage a culture of integrity permeating all aspects of the company, and ensure that its vision, mission and objectives are ethically sound.

3.3 Codes of ethics and conduct

Companies should develop a code of ethics and/or a code of conduct which will apply across the organisation. The code should stipulate the ethical values of the organisation as well as include more specific guidelines for the company in its interaction with its internal and external stakeholders. Such codes must be actively and effectively communicated across the company, and should be integrated into the company's strategy and operations. There should be appropriate training programmes in place to enable staff to understand such codes and apply them effectively and sufficient support and compliance assessments to assist employee performance in these matters. Boards should regularly consider whether such codes remain complete and appropriate. Any decision to set aside such codes in particular circumstances should be formally considered at board level. Codes of ethics and codes of conduct should also be made available to shareholders.

3.4 Bribery and corruption

Bribery and corruption are incompatible with good governance and harmful to the creation of long-term value. The board should create and sustain appropriately stringent policies and procedures to avoid company involvement in any such behaviour. The expectations of ICGN members in this regard are set out in detail in the ICGN Statement and Guidance on Anti-Corruption Practices.

3.5 Employee share dealing

Companies should have clear rules regarding any trading by directors and employees in the company's own securities. Among other issues, these must seek to ensure that individuals do not benefit from knowledge which is not generally available to the market.

3.6 Compliance with laws

Companies should adhere to all applicable laws of the jurisdictions in which they operate. Sometimes such compliance alone will be insufficient: exceptions permitted in local laws and shortcomings in the laws of particular jurisdictions should also be handled in a responsible manner.

3.7 Whistle-blowing

The board should ensure that the company has in place a mechanism whereby an employee, supplier or other stakeholder can without fear of retribution raise issues of particular concern with regard to potential or suspected breaches of a company's code of ethics or conduct, or any other failure to comply with laws or standards. The board should assure itself that any concerns raised in such a way are handled appropriately.

4.0 Risk management

4.1 Effective and appropriate risk management

Companies need to take risks, for without risks there will be no returns. However, boards need to understand and ensure that proper risk management is put in place for all material and relevant risks that the company faces.

4.2 Dynamic management process

The board has the responsibility to ensure that the company has implemented an effective and dynamic ongoing process to identify risks, measure their potential outcomes, and proactively manage those risks to the extent appropriate. The board should also determine the company's risk-bearing capacity and the tolerance limits for key risks, to avoid the company exceeding an appropriate risk appetite. This process needs to be a dynamic one to respond to risks as they develop and as the company's business and marketplace develops. If necessary the board should seek independent external support to supplement internal resources.

4.3 Board oversight

Companies should maintain a documented risk management plan. At least annually, the board should approve the risk management plan which it is then the responsibility of management to implement.

4.4 Comprehensive approach

Risk identification should adopt a broad approach and not be limited to financial reporting; this will require consideration of relevant financial, operational and reputational risks.

4.5 Disclosure

Companies should disclose sufficient information about their risk management procedures to reassure their shareholders that they are appropriately robust. Disclosures should include the handful of particularly key risks which the company faces.

5.0 Remuneration

5.1 Alignment with long term

Remuneration structures for senior management should be appropriately aligned with the drivers of value-creation over time-scales appropriate both for a company's business and for its shareholders.

5.2 Link to value-creation

Executive pay should incentivise value creation within companies and should effectively align the interests of executives with those of shareholders. Remuneration structures and frameworks should reinforce, not undermine, the corporate culture. Performance measurement should incorporate risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company and its shareholders, and performance should be measured over timescales which are sufficient to determine that value has in fact been added for the company and its shareholders. The expectations of ICGN members in this regard are set out in detail in the ICGN Remuneration Guidelines.

5.3 Pay for non-executive directors

Pay for non-executive directors should not be structured in a way which risks compromising their independence from management or from controlling shareholders. The expectations of ICGN members in this regard are set out in detail in the ICGN Non-executive Director Remuneration Guidelines.

5.4 Transparency

The company should make substantive disclosure of all significant aspects of remuneration policies and structures for key executives, and in particular the performance metrics which are in place to incentivise value-creation, to incorporate risk management considerations and to align the interests of executives with those of shareholders. Disclosure should include how the awards made in a given year were determined and how they are appropriate in the context of the company's underlying financial performance. The company should also disclose any advisers to the remuneration committee and whether they are deemed independent.

5.5 Share ownership

Every company should have and disclose a policy concerning ownership of shares of the company by senior managers and executive directors with the objective of aligning the interests of these key executives with those of shareholders.

5.6 Hedging

The use of derivatives or other structures to hedge director or executive share ownership or unvested equity-linked remuneration undermines the alignment of interests which that share ownership and remuneration is intended to provide. Companies should therefore have agreed policies which bar such hedging.

5.7 Shareholder approval and dialogue

The equity-linked remuneration for key executives should always be subject to shareholder approval. Furthermore, because remuneration is an area of particular controversy and where there is a particular risk of conflicts of interest, the introduction of annual votes on remuneration packages and/or remuneration policies should be encouraged in markets around the world, as a way of supporting the board carrying forward its responsibility to properly align executive incentives. Where a significant change to remuneration structures is proposed or where significant numbers of shareholders have opposed a remuneration resolution, the board should proactively seek dialogue with shareholders with the aim of addressing their concerns.

5.8 Employee remuneration

Employee remuneration is a driver of corporate culture as the pay for the majority of staff is a significant factor in determining and developing a company's culture. As with senior management, remuneration structures and frameworks should reinforce, not undermine, the corporate culture. Again as with senior management, performance measurement for staff remuneration should incorporate risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company and its shareholders, and performance should be measured over timescales which are sufficient to determine that value has in fact been added for the company and its shareholders. Shareholders would welcome disclosure by boards that they are confident appropriate pay structures are in place to promote and enhance the corporate culture.

6.0 Audit

6.1 Robust and independent audit

Companies should aspire to robust, independent and efficient audit processes using external auditors in combination with the internal audit function.

6.2 Annual audit

The annual audit carried out on behalf of shareholders is an essential part of the checks and balances required at a company. It should provide an independent and objective opinion that the financial statements fairly represent the financial position and performance of the company n all material respects, give a true and fair view of the affairs of the company and are in compliance with applicable laws and regulations.

6.3 Scope of audit

The minimum scope of the audit will be as prescribed by applicable law, and the audit committee of the board should agree a scope that is sufficient for the company's purposes. Shareholders should also have the right to expand the scope of the audit.

6.4 Independent audit

Annual audits should be carried out by an independent, external audit firm which should be proposed by or with the assistance of the audit committee of the board for approval by the shareholders. The audit committee should have regular and ongoing dialogue with the external auditor without management being present. Any resignation of an auditor should be publicly disclosed. The departing auditor should publicly communicate the reasons for such a resignation.

6.5 Ethical standards

The auditors should observe high-quality auditing and ethical standards. To limit the risk of possible conflicts of interest, non-audit services and fees paid to auditors for non-audit services should be both approved in advance by the audit committee and disclosed in the annual report.

No audit firm staff involved in the audit should be rewarded in any way for selling, or the provision of, non-audit services.

6.6 Internal audit

Companies should establish and maintain an effective internal audit function that has the respect, confidence and co-operation of both the board and management. Where the board decides not to establish such a function, full reasons for this should be disclosed in the annual report, as well as an explanation of how adequate assurance has been maintained in its absence. The internal audit function should have a functional reporting line to the audit committee chair. The audit committee should be ultimately responsible for the appointment, performance assessment and dismissal of the head of internal audit or outsourced internal audit provider. The external auditor should not provide internal audit services to the company.

6.7 Audit committee role

The company's interaction with the external auditor should be overseen by the audit committee of the board on behalf of the shareholders. The audit committee seeks to assure itself and shareholders of the quality of the audit carried out by the auditors as well as overseeing their independence.

The audit committee should maintain oversight of key auditing decisions as well as key accounting decisions. The audit committee should recommend to the board for consideration and acceptance by shareholders the appointment, reappointment and, if necessary, the removal of the external auditors. The board should disclose and explain this process and the process by which the audit committee assures itself of the ongoing independence of the external auditors.

7.0 Disclosure and transparency

7.1 Transparent and open communication

Every company should aspire to transparent and open communication about its aims, its challenges, its achievements and its failures.

7.2 Timely disclosure

Companies should disclose relevant and material information concerning themselves on a timely basis, in particular meeting market guidelines where they exist, so as to allow investors to make informed decisions about the acquisition, ownership obligations and rights, and sale of shares.

7.3 Affirmation of financial statements

The board of directors and the appropriate officers of the company should affirm at least annually the accuracy of the company's financial statements or financial accounts.

7.4 Accounting standards

To attract international investors, companies should apply accounting and financial reporting standards which are generally accepted high-quality international accounting standards. The audit committee of the board should maintain oversight of key accounting policies and key accounting judgements taken under those policies. The accounting policies should be disclosed in the company's annual report.

7.5 Non-financial business reporting

The reporting of relevant and material non-financial information is an essential part of the disclosure required to enable shareowners and investors to make informed decisions on their investments. The expectations of ICGN members in this regard are set out in detail in the ICGN Statement and Guidance on Non-financial Business Reporting.

7.6 Disclosure of ownership

In addition to financial and operating results, company objectives, risk factors, stakeholder issues and governance structures, the disclosures should include a description of the relationship of the company to other companies in the corporate group, data on major shareholders and any other information necessary for a proper understanding of the company's relationships with its public shareholders.

8.0 Shareholder rights

8.1 Accountability

Shareholders expect to have appropriate rights to ensure that boards are accountable for their actions.

8.2 Corporate charter

Companies should publicly disclose their corporate charter or articles of association in which, among other things, the rights of shareholders are clearly set out. Any changes to these should be subject to shareholder approval.

8.3 Shareholder protections

Boards should treat all the company's shareholders equitably and should respect and not prejudice the rights of all investors. Boards should do their utmost to enable shareholders to exercise their rights, especially the right to vote, and should not impose unnecessary hurdles.

8.3.1 Unequal voting rights

Companies' ordinary or common shares should feature one vote for each share. Divergence from a 'one-share, one-vote' standard which gives certain shareholders power disproportionate to their equity ownership should be both disclosed and justified. Companies should keep such structures under regular review, and put their retention up for regular approval by shareholders. Any such structures should be accompanied by commensurate extra protections for minority shareholders.

8.3.2 Shareholder participation in governance

Shareholders should have the right to participate in key corporate governance decisions, such as the right to nominate, appoint and remove directors on an individual basis and also the right to appoint the external auditor.

8.3.3 Major decisions

The nature of a company that shareholders have invested in should not change without shareholders having the opportunity to give their approval to that change. Such changes include major transactions, the issue of significant portions of shares and changes to the articles or by-laws. Further, companies should not implement shareholder rights plans or so-called 'poison pills', nor any other structures that have the effect of anti-takeover mechanisms, without shareholder approval. Not only should there be a shareholder vote with regards to any significant related party transaction, but only non-conflicted shareholders should be able to vote on it.

8.3.4 Pre-emption

New issues of shares should be made on a pre-emptive basis, that is offered proportionately to existing shareholders. Shares should not be issued on a non-pre-emptive basis unless existing shareholders have given their prior approval.

8.3.5 Shareholders' right to call a meeting of shareholders

Companies should enable holders of a specified portion of its outstanding shares or a specified number of shareholders to call a meeting of shareholders for the purpose of transacting the legitimate business of the company. While it is appropriate to limit vexatious proposals, these hurdles should be low enough to enable appropriate accountability of the company to its shareholders. Shareholders should be enabled to work together to make such a proposal.

8.3.6 Shareholder resolutions

Companies should enable holders of a specified portion of its outstanding shares or a specified number of shareholders to put resolutions to a shareholders meeting. While it is appropriate to limit vexatious proposals, these hurdles should be low enough to enable appropriate debate and discussion on issues of importance to shareholders. Shareholders should be enabled to work together to make such a proposal.

8.3.7 Shareholder questions

Shareholders should be provided with the right to ask questions of the board, management and the external auditor both before and at meetings of shareholders, including questions relating to the board, its governance and the external audit.

8.3.8 Consultation among institutional shareholders

Institutional shareholders should not face regulatory barriers to discussions regarding forthcoming voting decisions or concerning other basic shareholder rights. Concert party rules and/or takeover regulations should not prevent ongoing shareholders from sharing perspectives about companies in which they have mutual interests.

8.4 Voting-related rights

8.4.1 Shareholder ownership rights

The exercise of ownership rights by all shareholders should be facilitated, including giving shareholders timely and adequate notice of all matters proposed for shareholder vote.

8.4.2 Vote execution

Votes cast by intermediaries should be cast only in accordance with the instructions of the beneficial owner or its authorized agent.

8.4.3 Vote count

Equal effect should be given to votes whether cast in person or in absentia and meeting procedures should ensure that all votes are properly counted and recorded.

8.4.4 Disclosing voting results

Companies should make a timely announcement of the outcome of a vote and publish voting levels for each resolution promptly after the meeting.

8.5 Shareholder rights of action

Shareholders should be afforded rights of action and remedies which are readily accessible in order to redress conduct of a company which treats them inequitably. Minority shareholders should be afforded protection and remedies against abusive or oppressive conduct.

8.6 Record of ownership of a company's shares

Every company should maintain a record of the registered owners of its shares or hose holding voting rights over its shares. Every company should be entitled to require registered owners to provide the company with the identity of beneficial owners or holders of voting rights. Shareholders should be able to review this record of registered owners of shares or those holding voting rights over shares.

8.7 Promoting shareholder rights

Where the rights discussed above are not available in particular jurisdictions, local regulators are to be encouraged to put these rights in place. Where local law does not prevent it, companies should themselves enable shareholders to exercise these rights.

9.0 Shareholder responsibilities

9.1 Alignment

Shareholders should act in a responsible way aligned with the company's objective of long-term value creation. Institutional shareholders must recognise their responsibility to generate long term value on behalf of their beneficiaries, the savers and pensioners for whom they are ultimately working. Institutional shareholders should be ready where practicable, to enter into a dialogue with companies in order to achieve a common understanding of objectives.

9.2 Integration into mandates

Pension funds and those in a similar position of hiring fund managers should insist that fund managers put sufficient resource into governance analysis and engagement which deliver long term value.

9.3 Integration into investment decision-making

Shareholders should take governance factors into account and consider the riskiness of a company's business model as part of their investment decision making. Moreover, shareholders should develop and improve their capacity to analyse and influence governance risks and opportunities at investee companies for the benefit of their own beneficiaries, as well as acting with fiduciary responsibility to promote better governance at those companies. To exercise this responsibility, shareholders should contribute to the improvement in the functioning of boards of directors, to strengthening the accountability of management and to promoting information disclosure and transparency.

9.4 Collaboration

Where appropriate, shareholders should collaborate where this will enable them to achieve results most effectively.

9.5 Active and considered voting

Shareholders should actively vote at Annual and Extraordinary General Meetings. Votes should always be cast in a considered manner. Institutional shareholders should publicly disclose their voting policies and practices. They should recognise that they lose their voting rights when they lend stock. In order for votes to be cast, lent stock needs to be recalled. It is also important to monitor stock lending in connection with short selling. The ICGN's recommendations in this area are set out in its Securities Lending Code of Best Practice.

9.6 Commitment to Principles

Institutional shareholders should formally commit to the principles laid out in the ICGN Statement of Principles on Institutional Shareholder Responsibilities (2007). The ICGN encourages investors in major markets to develop local principles, to be applied on a comply or explain basis, to further promote transparency and accountability across the investment chain.

9.7 Internal corporate governance

Institutional shareholders should consider their own internal corporate governance, ensuring the proper oversight of their management, acting in the interests of their beneficiaries and managing conflicts of interest.

Part 4 Corporate responsibility issues

Introduction

This section outlines our approach to incorporating an analysis of the quality of corporate responsibility disclosure and performance into our voting and engagement actions.

Economies and businesses do not operate in isolation from society or the physical environment. Therefore, these factors should be incorporated into predictions about longer-term economic growth and corporate profitability. Consequently, we believe that including an explicit analysis of a company's corporate responsibility performance builds a more complete picture of the quality of a company's management and their ability to return value to shareholders. The availability, quality and relevance of the corporate responsibility information disclosed by companies is fundamental to this process. We aim to play a role in promoting high quality disclosure and performance through both our voting activity and direct engagement with companies. We fully support the integration of environmental, social and governance (ESG) considerations into business operations, strategy and reporting and consider the extent to which this is the case in our voting. We also consider that companies should state in their remuneration reports whether their remuneration committee consider ESG factors which are of material relevance to the sustainability and long-term interested of the company when setting the remuneration of executive directors.

Our 2012 voting policy on corporate responsibility disclosure continues to build on an approach that has now been in place since 2001.

Voting policy on Corporate Responsibility

1.1 In recognition of the importance of corporate responsibility issues to investment performance, Aviva Investors has developed a robust process for incorporating the consideration of these matters into our voting decisions. Our policy is as follows:

- Aviva Investors expects all large listed companies in the FTSE 350 Index, MSCI Europe Index and MSCI World Index to disclose information on their exposure to and management of key corporate responsibility risks

- Where companies do not publish any corporate responsibility information, Aviva Investors may vote against the resolution to adopt the Report and Accounts or, where such a resolution is not available, against any other resolution(s) which we consider to be a suitable proxy

- Where companies publish insufficient information on corporate responsibility issues, Aviva Investors may withhold support on the resolution to adopt the Report and Accounts or, where such a resolution is not available, on any other resolution(s) which we consider to be a suitable proxy

  Where we have concerns regarding companies' governance and performance on corporate responsibility issues we may additionally withhold support from the remuneration report, chair of any Board level sustainability committee or equivalent, or other resolutions as appropriate.

1.2 Shareholder resolutions are proposals submitted by shareholders for a vote at the company's AGM. These resolutions may relate to company policies and procedures, issues of corporate governance or corporate responsibility. In many cases they will relate to issues such as climate change, human rights, labour relations or other ethical issues. While relatively uncommon in Europe they are routinely issued in the US. These resolutions tend to be non-binding.

We will vote on each shareholder resolution proposed in the MSCI World Index and support those that we believe are in the long-term interest of shareholders. However, if we consider the resolution to be overly burdensome or better addressed through another route then we will not support the resolution.

1.3 We welcome feedback on our policy and approach from companies, and hope to discuss these issues with them in more depth as part of this process.

Guidelines on reporting corporate responsibility information to investors

2.1 In order to provide companies with a better understanding of what constitutes 'sufficient' corporate responsibility disclosure we have set out some high level reporting recommendations below. These guidelines are intended to be informative not prescriptive. They are aimed at providing companies with a clearer understanding of how our voting policy will be implemented. Reporting should be tailored by the management to be appropriate to the nature and scale of the business and its impacts.

2.2 When reporting to investors, companies should prioritise disclosure of corporate responsibility issues that are most relevant to their business. We look for the integration of relevant issues into the financial reports, as this is most helpful to investors. Best practice increasingly involves their consideration in the chairman and chief executive's statements, the business review (see 2.5 below), the remuneration report, internal control statements and the audit report. We welcome stand alone corporate responsibility reports, particularly when they are justified by the nature and scale of the issues, as well as the depth of the company's response.

2.3 Elements covered in company reporting may include:

- A management statement on corporate responsibility issues and their relevance to the business (e.g. policies, business principles)
- An outline of potential financial risks and opportunities the company may be exposed to arising from corporate responsibility issues (e.g. environmental legislation, product safety litigation, employee costs)
- A description of procedures to minimise corporate responsibility risks and liabilities (e.g. management systems, provisioning, contingency planning, internal controls, internal audit, external verification)
- Information on corporate responsibility performance (e.g. key performance indicators, targets, accident frequency rates, emissions data, employee turnover figures - for companies considering what kind of data to report, the Global Reporting Initiative may provide some useful further guidance)
- The external initiatives, codes and standards that the company seeks to uphold (e.g., the United Nations Global Compact and associated Communication on Progress,the Universal Declaration on Human Rights, the International Labour Organisation's core labour standards, and the OECD Guidelines for Multinational Enterprises)

2.4 Reporting should include all areas of the business and encompass:

- large associated companies where the parent company holds more than 50% and/or there is a significant management control by the parent company
- any large joint-venture projects with significant corporate responsibility impacts

2.5 Currently, as outlined in section 1, we use the vote on the report and accounts (or equivalent) to indicate our view of a company's corporate responsibility reporting and performance. We would like companies to present their corporate sustainability strategy to a separate advisory vote at its annual general meeting. The main purpose of which would be to create the right kind of discussion within boardrooms, throughout the business and between the company and its shareholders – encouraging investors to think about the sustainability of the firm

Business Reviews

Section 417 of the UK Companies Act 2006 details the disclosure requirements for listed companies that must produce a business review. The purpose of the business review is to inform members of the company and help them to assess how the directors have performed their duty to promote the success of the company. It contains a new requirement for reporting on a range of information, covering environmental matters, employee issues, as well as social and community issues. It suggests the inclusion of information regarding company policies in relation to those matters and the effectiveness of such policies. This reflects the EU Accounts Modernisation Directive which applies to all listed and non listed large and medium sized companies in EU member states. They are required to report on environmental and community issues when these are considered material to an understanding of the company's performance, position and development.

The reporting provision is analogous to Aviva Investors' historic policy on the reporting of corporate responsibility issues in that it requires disclosure "to the extent necessary for an understanding of the development, performance or position of the company's business".

Aviva Investors therefore pays particularly close attention to the content of enhanced Business Reviews or information within voluntary Operating and Financial Reviews when forming our voting decisions.

We look for a thoughtful and sufficiently forward looking business review that covers the company strategy, objectives and operating environment. We also expect to find sufficient evidence that the key corporate responsibility risks have been considered and that action has been taken to mitigate these risks.

At the time of writing, the government has yet to produce guidance on the implementation of the business review. Companies may therefore find it helpful to refer to the guidance that we have provided above, as well as ASB Reporting Standard 1 on the 'Operating and Financial Review', which contains some guidance on key performance indicators.

ABI guidelines on responsible investment disclosure

2.6 Aviva Investors' voting policy is closely aligned with the Association of British Insurers' (ABI) Guidelines on Responsible Investment Disclosure (see Appendix 1). Underlying the Guidelines is an assumption that the effective management of the risks associated with corporate responsibility matters can lead to long term financial benefits for the companies concerned, which is a belief that we share. As a result, our voting decisions on corporate responsibility disclosure will take into account the extent to which companies meet these ABI Guidelines.

Responsibilities for implementation

3.4 Primary responsibility for oversight of the responsible engagement policy lies with the Chief Investment Officer and the Executive Team. The SRI and corporate responsibility elements of the engagement strategy are also overseen by an external Advisory Committee. This helps to ensure that the engagement strategy is appropriately focused and effective. The implementation of the engagement policy rests with Aviva Investors' team of corporate governance and SRI specialists and fund managers.

Client reporting

3.5 Aviva Investors' engagement with companies on corporate responsibility and corporate governance issues is detailed in a variety of client reports on a regular basis. These reports include:

- A record of all relevant meetings where corporate responsibility and corporate governance issues were raised. This information is recorded in an engagement database that is updated regularly.
- Details of focused engagement meetings or ongoing dialogue with companies - including information on recommendations we have made to companies and how companies are performing against those recommendations.
- A regular update of our voting activities including reasons for abstentions and/or votes cast against management.
- Case studies of our effectiveness and progress reports in relation to the collaborative external engagement initiatives that we work on.

Both summary and detailed reports are either regularly sent to clients, or are published on our website, or are otherwise available to our clients on request.

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Appendix 1

Association of British Insurers: guidelines on responsible investment disclosure

The text in this Appendix, unless indicated otherwise, is extracted from the ABI Guidelines on Responsible Investment disclosure.

Background and introduction

Public debate on corporate responsibility and new legislation in both the EU and UK has furthered understanding of corporate responsibility to the point where it seems helpful for institutional shareholders to set out fresh disclosure principles, which will guide them in assessing narrative reporting and seeking to engage with companies in which they invest.

The guidelines below are a modification of the Socially Responsible Investment Guidelines launched by the ABI in 2001. They take account of the EU Accounts Modernisation Directive and the new UK Companies Act, as well as recent experience of narrative reporting and the clarification by the UK Government of directors' liability for narrative statements. They do not involve substantial change but aim to highlight aspects of responsibility reporting on which shareholders place particular value. This is narrative reporting which:

- sets environmental, social and governance (ESG)[8] risks in the context of the whole range of risks and opportunities facing the company
- contains a forward looking perspective, and
- describes the actions of the Board in mitigating these risks.

Institutional shareholders are anxious to avoid unnecessary prescription or the imposition of costly burdens, which can restrict the ability of companies to generate returns. They do not intend that these modified guidelines should add to the reporting burden facing companies, but rather that they should help companies understand and respond to the needs of investors when they set out to comply with new reporting requirements under UK and European company law.

Investors continue to believe that, by focusing on the need to identify and manage ESG risks to the long and short-term value of the business, the guidelines highlight an opportunity to enhance value. They are grateful for the positive response of companies to the original guidelines. However, they believe it is desirable for reporting in connection with these risks to be set firmly in the context of the full range of strategic, financial and operational risks facing the business. They also value forward-looking assessment of risks in the annual reports of companies in which they invest.

ABI members recognise that it is also incumbent on institutional investors to consider these risks and opportunities in the context of their overarching objective of enhancing shareholder value. Addressing them should be an integral part of the investment process, rather than a separate "add-on" consideration.

It is not the intention of these guidelines to set a limit on the amount of information companies should provide on their response to environmental, social, and governance matters. Some shareholders with specific ethical investment objectives may seek more detailed information.

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[8] *The term "environmental, social and governance" replaces the reference to social, environmental and ethical risks in the previous guidelines. This reflects the evolution of market thinking which now seeks to stress accountability in a broader sense. Ethical issues are seen as a subset of a company's overall accountability responsibilities.*

Some companies may choose to make additional information available, for example through separate corporate responsibility reports, in order to enhance their appeal to investors.

The ABI hopes that these guidelines will provide a helpful basic benchmark for companies seeking to enhance best practice.

The Disclosure Guidelines

The guidelines take the form of disclosures, which institutions would expect to see included in the annual report of listed companies. Specifically they refer to disclosures relating to Board responsibilities and to policies, procedures and verification.

With regard to the Board, the company should state in its annual report whether:

1.1 As part of its regular risk assessment procedures, the Board takes account of the significance of environmental, social and governance (ESG) matters to the business of the company.

1.2 The Board has identified and assessed the significant ESG risks to the company's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response.

1.3 The Board has received adequate information to make this assessment and that account is taken of ESG matters in the training of directors.

1.4 The Board has ensured that the company has in place effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

With regard to policies, procedures and verification, the annual report should:

2.1 Include information on ESG-related risks and opportunities that may significantly affect the company's short and long term value, and how they might impact on the future of the business.

2.2 Include in the description of the company's policies and procedures for managing risks, the possible impact on short and long term value arising from ESG matters. If the annual report and accounts states that the company has no such policies and procedures, the Board should provide reasons for their absence.

2.3 Include information, where appropriate using Key Performance Indicators (KPIs), about the extent to which the company has complied with its policies and procedures for managing material risks arising from ESG matters and about the role of the Board in providing oversight.

Where performance falls short of the objectives, describe the measures the Board has taken to put it back on track.

2.5 Describe the procedures for verification of ESG disclosures. The verification procedure should be such as to achieve a reasonable level of credibility.

With regard to the Board, the company should state in its remuneration report:

3.1 Whether the remuneration committee is able to consider corporate performance on ESG issues when setting remuneration of executive directors. If the report states that the committee has no such discretion, then a reason should be provided for its absence.

3.2 Whether the remuneration committee has ensured that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour.

Towards Best Practice

Institutional shareholders consider that adherence to the principles outlined above will help companies to develop appropriate policies on corporate responsibility.

The principles should also provide a constructive basis for engagement between companies and their shareholders. Over time this will allow both parties to develop a clear joint understanding of best practice in the handling of environmental, social and governance matters that will help preserve and enhance value. Current understanding of best practice leads to the following conclusions and indications as to how the guidelines should operate:

1. The guidelines are intended to apply to all companies, including small and medium companies.

2. The cost of managing risks should be proportionate to their significance. Ideally, procedures should be integrated into existing management structures and systems.

3. Statements relating to significant risks should be made in the annual report as part of the Business Review or voluntary Operating and Financial Review, and not separately as part of the summary accounts or on a web site dedicated to social responsibility. This would not preclude a cross reference to other parts of the report where more detailed disclosure of the type of risks involved and systems for managing those risks may also fit with other content.

4. With regard to the implementation, shareholders are anxious to leave space for companies to establish their own systems best suited to their business. However, they believe that, with regard to clause 1.1, best practice would require the full Board to consider the issues on a regular basis, although some on-going detailed work might be delegated to a committee. Disclosure should include a brief description of the process undertaken by the Board for identifying significant risks and indicate which risks are the most significant in terms of their impact on the business.

5. Examples of initiatives for reducing and managing risks (see 1.4 and 2.2) include regular contact with stakeholders, mechanisms to ensure that appropriate standards are maintained in the supply chain, and a clear policy for mitigating environmental impact which is monitored by the Board through published KPIs. Evidence of such initiatives would be viewed positively by shareholders.

6. Reporting on performance over time in complying with policies to reduce risk will help shareholders monitor improvement in compliance.

7. Independent external verification of ESG disclosures would be regarded by shareholders as a significant advantage. Credible verification may also be achieved by other means, including internal audit. It would assist shareholders in their assessment of ESG policies if the reason for choosing a particular method of verification were explained in the annual report.

APPENDICES (to the ABI Guidelines)

Questions on environmental, social and governance matters.

Disclosure could be addressed by response, in the annual report to the following questions:

1. Has the company made any reference to each of environmental, social and governance (ESG) matters? If so, does the Board take these regularly into account?
2. Has the company identified and assessed significant risks and opportunities affecting its long and short term value arising from its handling of ESG matters?
3. Does the annual report contain a forward-looking assessment of ESG and other risks facing the company?
4. Does the annual report describe the role of the Board in overseeing risk management?
5. Does the company state that it has adequate information for identification and assessment?
6. Are systems in place to manage the ESG risks?
7. Does the Remuneration Committee take account of the handling of ESG risks when setting performance targets?
8. Does Directors' training include ESG matters?
9. Does the company disclose significant short and long term risks and opportunities arising from ESG issues? If so, how many different risks/opportunities are identified?
10. Are policies for managing risks to the company's value described?
11. Does the company state whether it has followed ASB guidance on narrative reporting?
12. Does the Company produce KPIs on material ESG risks?
13. Does the Company produce KPIs on material ESG risks for each business unit?
14. Does the Company report on the effectiveness of the ESG strategy through a review of these KPIs?
15. Are verification procedures described?

Questions for investment trusts

1. Has the company made reference to each of environmental, social and governance (ESG) matters?
2. Is the voting policy of the trust publicly available?
3. Does the voting policy make reference to ESG matters?
4. Is the manager encouraged actively to engage with companies to promote better ESG