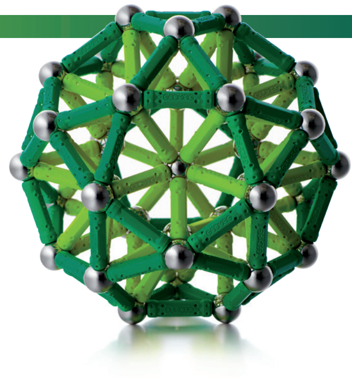
MERIAN GLOBAL INVESTORS: OUR APPROACH TO STEWARDSHIP



FREDDIE **WOOLFE**
HEAD OF RESPONSIBLE INVESTMENT AND STEWARDSHIP

Merian Global Investors regards stewardship as an opportunity to improve and protect its clients' interests and, by implication, investment returns.

Apart from seeking to provide clients with the investment outcomes they require to meet their financial aspirations, effective stewardship can also enhance the performance of companies - ultimately to the benefit of wider society.

Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and environmental, social and governance topics. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

This document sets out our approach to stewardship, as required by the Stewardship Code and the EU Shareholder Rights Directive II, and applies to our equity investments. As of the date of publication, the UK Stewardship Code is being revised; as such we intend to carry-out a wholesale review of these disclosures when the new Code is published in summer 2019.

HOW WE DISCHARGE OUR STEWARDSHIP RESPONSIBILITIES

The aim of our stewardship activity is to protect and enhance our clients' interests and the value of their investments. The stewardship approach taken varies, depending on investment style and size of holding, as described below.

RESPONSIBILITY

Given the importance of this activity to our investment processes and clients, to the extent practicable according to the investment style of the strategy, our stewardship activities are executed in conjunction with, and often led by, our portfolio managers and analysts. We have dedicated in-house expertise to guide and support this process. However, we are clear that stewardship is simply good investment practice, so in order for it to be most effective, it must be a core part of how we think about investment.

INVESTMENT STYLES

Merian Global Investors provides a range of investment products drawing on various investment styles and investment instruments. For stewardship to be most effective, it must be applied in a way that best matches with the investment strategy, meaning that our approach varies across our investment desks. The equity investment styles employed include:

- Long-term long-only equity funds, where we build and maintain long-term shareholdings and relationships with investee companies. For these funds we view stewardship as a core part of our activity and typically consider using the full range of powers available to shareholders in order to increase and/or protect the value of investments.

- Systematic strategies, where securities may be held for only a short period of time. These funds may use a range of financial instruments, including 'short' positions using derivatives in the expectation that the share price will fall. For these strategies, the opportunity to build long-term relationships and engage with investee companies is reduced. However, our approach to voting remains the same.

MATERIALITY

Our approach to stewardship, the companies we focus on and the issues we discuss with companies requires us to take a view on materiality. There are a variety of ways in which we consider this:

Materiality of holdings

To the company: where we hold large positions of a company's market capitalisation we are likely to have more influence, and our stewardship activities are more likely to be successful.

To the investment desk: irrespective of the value of the holding, we will naturally focus our stewardship on those companies that represent a larger part of the investment strategies' overall value, given the potential impacts of the risks and opportunities of the topics we discuss to our clients in that strategy. Indeed, experience tells us that a large holding is not a prerequisite for successful engagement if the approach taken is constructive and in the company's best interests.

To the house: as multiple investment desks might hold shares in the same company, where we engage and vote, we aggregate our holdings to represent a unified voice. We might therefore end up focusing our stewardship activities on a company that is a relatively small part of one fund's value as a result of it being more material at a house level.

Materiality of the issue

To the company: as part of an investment process we seek to understand the extent to which the issues we look to discuss with a company are relevant to its performance, operations, financials and, ultimately, value. We are developing proprietary systems to cover issues of sustainability and governance more systematically; however, for this assessment to be effective it requires a strong knowledge of many aspects of the business rather than generic sector or industry research. This therefore involves significant discussion between in-house responsible investment and stewardship resources and portfolio managers in order to focus in on the key issues.

To clients: we acknowledge that certain issues might not trigger our threshold of materiality to the company or holdings but are still important issues for our clients that they would expect us to consider. We therefore ensure that we keep client interests at the forefront of our minds when determining the companies and topics to pursue in our stewardship activities.

HOW WE MANAGE STEWARDSHIP CONFLICTS OF INTEREST

It is possible that actual or perceived conflicts of interest may arise in relation to the execution of our stewardship activity. These could cause us to act in a different way than we otherwise would, for example, by not voting against resolutions that contravene our policy or choosing not to engage on a material issue. Areas of potential conflict include:

- We have a commercial relationship with an investee company
- Members of staff or director is a director of an investee company
- An investee company is also a client of ours

We have a number of processes to ensure that these conflicts do not impact the rigour of our approach to executing our stewardship responsibilities on behalf of all our clients.

We maintain a watchlist on our voting platform of our major suppliers and clients, as well as those companies where one of our colleagues is also a board member. For routine voting items we default the vote to Glass Lewis' assessment of how our policy should be applied. If

Glass Lewis is unable to apply our policy directly on any resolution we revert to their standard recommendation in order to keep the vote independent. Where the resolution is of a transactional nature – which naturally requires a more investment-led rather than governance view – the vote is escalated to the head of responsible investment and compliance advisory to ensure no conflicts exist, and a secondary review will be conducted by a portfolio manager from a different investment desk to feed in to provide an additional investment lens.

To manage conflicts in engagement, we monitor portfolios to identify engagement targets, which makes evident where sustainability and governance issues might exist that require additional research and consideration into the investment case and valuation. We also maintain independent oversight of these issues through our investment risk function. This ensures that while the investment desks are responsible for the construction of their portfolios, we have a formal governance process in place to monitor and query exposure to environmental, social and governance risks. As an additional measure, our portfolio managers hold FCA CF30 authorisations and are therefore obligated to act with integrity. Engagement will be led by the head of responsible investment and stewardship or another investment colleague should a portfolio manager be conflicted to such an extent that it would be inappropriate for them to undertake the related activities.

HOW WE MONITOR OUR INVESTEE COMPANIES

Monitoring our investments is a core aspect of our work. Partly, this is to assess whether to add to, maintain or sell the holding. We will also monitor investments for the purpose of protecting against a loss of investment value and ideally to assist companies in improving their value and returns.

Our monitoring includes an on-going assessment of companies' financial and operational performance, the quality and credibility of strategy, the markets and economies in which companies operate, the effectiveness of a company's leadership, financial sustainability, the quality of a company's reporting and governance processes, as well as environmental and social issues and the ethical behaviour of the company and membership of the leadership team.

How this is applied precisely depends on the investment style of the fund. A systematic strategy will use regular data from a wide range of sources as its key inputs, whereas a long-only equity fund will also gather considerable amounts of information from discussions with company management and boards, as well as brokers and analysts, sector experts and others with valuable knowledge. We have also developed our own, proprietary tool called AIM (Accountability and Integration Methodology) which allows us to monitor the sustainability profiles of our investee companies and portfolios both through the investment process and also independently through investment risk. AGMs provide an opportunity for an additional annual governance health check of our investee companies.

In the course of our monitoring and engagement with company management we are willing to become insiders if justified in the circumstances: it is our practice that the fund managers responsible for the relevant shareholding will determine if we can be taken inside, in accordance with our control framework. We cannot agree to be taken inside without a clear deadline for insider status ending: it is not in the interests of our clients to be inside for an indefinite term.

WHEN AND HOW WE ESCALATE OUR STEWARDSHIP ACTIVITIES

The topics on which we will engage with companies include any of the issues which are monitored under the previous section on monitoring, but that list is not exclusive. Where we deem an issue to be material according to our definitions in the section on discharging our stewardship responsibilities and where we believe we have a reasonable chance of success, we will consider engaging with the appropriate company representatives, including senior executives and non-executive board members.

In our long-only strategies, we meet hundreds of companies annually. Meetings with investor relations and management permit us to assess the valuation of companies but are also used to question companies on strategy, performance, financial management and sustainability. We also meet with board chairs with whom we may discuss any issue relating to the business, but usually this includes discussion on the company's long-term performance and strategy, operations, and key environmental, social and governance topics. Where these meetings do not sufficiently allay our concerns, we will consider setting out a more formal engagement programme with the company, being clear on our expectations of change and timeframes to achieve that change. Where we do not see the change we hope for we will consider pushing for individual accountability for the issues, voting against directors or other resolutions or, in extremis, sell the holding.

Our systematic strategy desks do not meet company management given the nature of the investment process and the resultant investment time horizons. However, we recognise that we have stewardship responsibilities over these holdings; we therefore look to identify, via the AIM process, a small number of companies held by the investment desk that are likely to be held for a sufficiently long period of time and where we believe there to be material issues to address. Our responsible investment and stewardship resource will then conduct engagement using the same approach as we do in our long-only strategies.

It is preferable that all discussions with companies should take place confidentially. While we see there is some merit in greater transparency generally, the sensitivity of discussions regarding, for example, a company's future justifies discretion. Further, the willingness of a board to accept the need to change some aspect of its management of the company may hinge on the communications remaining confidential.

HOW WE WORK WITH OTHER SHAREHOLDERS

Working collaboratively with other investors can increase the level of influence over companies and it may therefore be desirable to encourage them to address shareholder concerns. Together our staff have decades of experience of working with other shareholders on stewardship issues and are willing to discuss issues of mutual concern regarding companies. The decision to work collaboratively is taken on a case by case basis but in all such conversations, care is required to avoid inadvertently creating concert parties or exchanging inside information.
We are members of several formal and informal groups which may facilitate collaboration with other investors, including:

- UK Investor Forum
- UK Corporate Governance Forum
- The UK Investment Association
- The Institutional Investors Group on Climate Change
- Investor Group of the 30% Club
- UN-supported Principles for Responsible Investment

Contact regarding collaborative engagement from institutional investments should be made to the head of responsible investment and stewardship at stewardship@merian.com

OUR VOTING POLICY AND STEWARDSHIP DISCLOSURES

Our voting policy, which is contained within our accountability expectations document, sets out how we typically vote in different circumstances. This policy is applied by Glass Lewis on our behalf, however where Glass Lewis is not able to apply our policy specific items are referred to us for further consideration. We are able to, and regularly do, pull meetings out of this process in order to adapt the outcome to best reflect our engagement with or investment views on the company. Our policy is by necessity generic and so we are quite happy to vote against it, although we record the reasons for any votes against our policy so this can be audited.

When implementing our voting policy, it is our hope that we will be able to support proposals put forward by the companies in which we invest, as we have actively chosen to invest in and support those management teams. However, as responsible stewards we seek to promote high standards of corporate governance and where companies do not meet those standards we may vote against management to encourage improvement. If the issues in question have already been discussed with a company and there are clear signs of improvement, we may vote in support of company management in order to recognise good faith and progress demonstrated by the company, even though there remains scope for further improvement. Inevitably, it is in these cases that we are likely to continue to engage with the company to promote continued improvement. As a fundamental criterion, we will not abstain on any resolution unless required to by law or other requirement, as we want to send as clear a message to management as possible.

Where we have a material holding either for the company or the investment desk in our long-only strategies, we will contact a company if we vote against on a resolution unless the matter has already been subject to discussion previously. For our systematic strategies we are less likely to follow up with engagement given the nature of the investment process unless the issue is likely to contribute to a decision to engage.

We are committed to being open and transparent with respect to our stewardship activity. As such, we publish on our responsible investment home page, quarterly voting activity reports, on a lagged basis, available in the three months following the quarter end. We also publish, annually at the moment, a responsible investment and stewardship report which provides more insight into our approach to stewardship and wider responsible investment topics.

ASSURANCE

We have previously relied on internal audit to carry out assurance of stewardship processes, and will review the need for external assurance in future.

In 2016 an internal audit of our stewardship activity was performed with a particular focus on engagement and voting processes including in the context of the UK Stewardship Code. An internal audit of our stewardship activity has subsequently been undertaken periodically, with the need for and benefit of an external audit being considered at least annually.

STOCK LENDING

Our current policy is that we do not engage in stock lending.

ADDITIONAL DISCLOSURES REQUIRED BY THE EU SHAREHOLDER RIGHTS DIRECTIVE II

HOW OUR INVESTMENT STRATEGY AND ITS IMPLEMENTATION CONTRIBUTES TO THE MEDIUM TO LONG-TERM PERFORMANCE OF THE ASSETS OF THE ASSET OWNER

Merian Global Investors is a client-focused organisation, committed to delivering innovative investment solutions, strong performance and top-quality service. A culture of accountability and empowerment enables the firm to attract and retain the very best investment professionals, allowing them freedom to perform within a strong governance framework to meet clients' needs.

The company's investment approach is based on the view that talented managers will achieve strong returns for clients if they have the appropriate freedom to use their own proven processes. MGI does not impose a single house style or view on its investment teams, but instead allows them a high degree of independence whilst ensuring that they work within the company's robust risk management and compliance framework.

THE KEY, MATERIAL MEDIUM TO LONG-TERM RISKS ASSOCIATED WITH THE INVESTMENTS

Key Investor Information Documents (KIIDs) are produced for every available share class within each fund, and they include a risk and reward profile rating.
The calculated risk and reward category shown on the KIIDs uses a method of calculation derived from EU rules. It is based on the rate at which the returns of the Fund have moved up and down in the past (i.e. volatility) and is not a guide to the future risk and reward category of the Fund. The category shown is not a target or guarantee and may shift over time. KIIDs are reviewed on at least an annual basis.

PORTFOLIO COMPOSITION

Portfolios are constructed in line regulatory requirements (where applicable). For example, UCITS funds are constructed in line with the UCITS guidelines. Such regulatory requirements will be outlined in the respective prospectus for each fund, available at www.merian.com.

TURNOVER

The turnover of the fund depends greatly on the investment style and strategy. Please refer to the section "Investment styles" above for further information.

TURNOVER COST

The turnover cost details can be found in the European PRIIPs Template (EPT), a copy of which is available upon request by emailing clientservices@merian.com.

Whether and how we make investment decisions based on an evaluation of medium to long-term performance, including the non-financial performance, of the companies we invest in

Please refer to the disclosures above, as well as to our Responsible Investment and Stewardship report for further details.

This statement is reviewed annually and updated as necessary.

Updated on 10 June 2019.

ONLINE

Download fund data
and read investment updates at
www.merian.com

TELEPHONE

Contact your regional sales manager or
speak to our dedicated client services
team on **+44 (0)20 7332 7524**

MERIAN GLOBAL INVESTORS (UK) LTD

2 Lambeth Hill, London, UK, EC4P 4WR

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Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The performance data does not take account the commissions and costs incurred on the issue and redemption of shares. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rate changes may cause the value of overseas investments to rise or fall.