

Global Stewardship Statement

Our approach to responsible ownership

What is Responsible Ownership?

Responsible Ownership, or Investor Stewardship, describes the activities undertaken by investors to monitor, engage and, where necessary, intervene on matters that may affect the long-term value of investee companies.

It seeks to build relationships between companies and their shareholders to foster healthy dialogue on a variety of issues such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration.

Stewardship responsibilities go beyond the traditional financial analysis performed by many investors and seek to ensure that companies are sustainable and run for the long-term benefit of all stakeholders, as well as expecting investors to work with others in the investment chain to improve best practice and transparency.

Our Stewardship policy

UBS Asset Management's stewardship policy is our commitment to act as good stewards of assets held and managed on behalf of our clients. We recognise that clients expect us to ensure the alignment of our approach with their own investment beliefs, policies and guidelines. We seek to be active shareholders by encouraging good governance and a high standard of corporate practices.

We have a strong regard for the principles of good stewardship and are signatories to stewardship codes of best practice in the UK and Japan, as well as adopting the Hong Kong SFC Principles of Responsible Ownership. UBS Asset Management is also a signatory of the UN Principles of Responsible Investment.

As a large scale investment manager we provide traditional (equity, fixed income and multi-asset), alternative, real estate, infrastructure and private equity investment solutions to private clients, financial intermediaries and institutional investors worldwide. With a number of different investment areas and a range of strategies within each area, the extent of stewardship activities necessarily may vary to some extent across the firm.

Integrating stewardship within the wider investment process

The separation of ownership (by shareholders) and management (by employees) of a company can make it harder to operate a business when differing interests conflict. We have a strong interest in ensuring that companies in which we invest on behalf of clients are successful and through our stewardship activities we seek to develop a relationship with investee companies, together with an understanding of mutual objectives and concerns.

We recognise the importance of corporate governance, environmental and social factors (ESG) to companies and believe that non-financial factors that are material in nature are indicators of sustainability and therefore helpful to the investment process, by broadening the range of data being considered.

They may have a direct impact on the future revenues and costs of companies, and thereby the long-term risk adjusted rate of return to investors and their beneficiaries or clients. For this reason, where possible, we seek to protect and enhance the value of clients' assets by ensuring that such factors are assessed and integrated into our overall company research and active investment decision making process, including in our estimation of cash flows, valuation metrics and growth opportunities.

Our approach to stewardship and the consideration of ESG factors involves data analysis, information sharing, on-going discussions and most importantly, engagement. The corporate engagement undertaken as part of our investment process improves the knowledge of, and confidence in, companies in which we invest on behalf of clients. Our meetings with companies are typically held between our investment team of analysts and portfolio managers and the company's Chair, Lead Director, Chief Executive or Finance Director.

These meetings enable us to have discussions about topics such as corporate strategy and help us make an assessment of management performance. They also give us an opportunity to outline what our expectations are, to explain our views on important issues and to monitor a particular company's development over time.

As well as discussions with companies we also seek to ensure that we review and comment where relevant upon public

policy and market developments, to ensure that our clients' interests are protected. An example of this is our work with the Sustainable Accounting Standards Board.

Monitoring investee companies

While different legal and cultural frameworks across global markets influence the way in which stewardship is implemented and monitored, in many countries there is increasingly well defined and accepted governance best practice for companies.

However, we acknowledge that across the world the approach to corporate governance differs and that simply complying with a governance code does not necessarily constitute good governance. Through our engagement process we encourage companies to adopt the highest standards of board leadership and executive management.

We believe that it is strong governance that drives corporate behaviour and if a company displays effective governance then it will usually have a well-considered approach to environmental and social issues. If such matters are well managed they should lead towards both better corporate performance and improved shareholder value over the long term.

While annual shareholder meetings give us the opportunity to send a message to boards about any concerns that we may have, our commitment to talking with companies on environmental, social and corporate governance issues on behalf of our clients goes beyond just a once a year vote.

It can be difficult to judge the effectiveness of a board from outside the boardroom and we believe that effective monitoring is an essential component of stewardship. For this reason we do not outsource any of our engagement activity.

At UBS Asset Management our monitoring involves the following:

- Our analysts and portfolio managers regularly monitor their investee companies and have frequent meetings with company executives and non-executive board members. These give us the opportunity to judge the success of the 'outputs' of governance – such as the strategy, acquisitions, capital allocation and operational performance.
- We review the 'inputs' to governance (such as board committee structures) ahead of the annual shareholder vote and on an ad-hoc basis as appropriate.
- On an on-going basis we monitor corporate developments through market news sources and company announcements.
- To identify issues of concern and to help with the monitoring of investee companies we use both internal information shared upon our proprietary databases, together with external specialist sell-side broker research and ESG rating tools, including information provided by ISS, MSCI ESG Research and Sustainalytics.

- As part of our oversight process we assess the quality of explanations given for any deviations from relevant corporate governance codes that a company may report from a 'comply or explain' perspective.
- As necessary we may undertake additional reviews on a company specific or sector basis.

This approach enables us to identify the factors that drive the company's value and key risks. Our engagement is prioritised and undertaken dependent on the circumstances and the issues to be discussed. Where we have a significant holding in a company, or have identified an issue with the strategic direction of the company or the performance of management, we will seek to discuss our concerns with the company. Our engagement may be routine in nature or may be based around specific transactional circumstances. Many of our engagements last several years.

Depending on the issue and whether the engagement activity is reactive or part of on-going discussions, our engagement with issuers can take the form of written communication, conference calls, or face-to-face meetings.

We maintain a comprehensive database of our meetings with companies and our voting activities. We review progress over time and follow-up on issues identified.

During the course of our corporate engagements, whilst we would manage our communication with our investee companies to avoid such circumstances, there may be exceptional circumstances where we are provided with information that is not fully public. We are willing to be made insiders, subject to:

- Our agreement
- For a limited period only
- It being of benefit to our clients.

In such cases, we will ensure that such information is strictly safeguarded and will comply with applicable regulatory requirements and UBS internal procedures in respect of the receipt of this information.

Our strategy on intervention and escalation

We judge companies not only on the traditional governance inputs, such as board structure, but also the outputs of governance such as operational performance.

Some of the most important issues for us are:

- Strategy - including acquisitions and the deployment of capital
- Operational performance
- Quality of the board
- Risk management
- Remuneration
- Reputation
- Environmental & Social impact
- Ethics & culture

We encourage company boards to ensure that at all times:

- The whole board is fully involved in endorsing strategy and in all major strategic decisions (e.g., mergers and acquisitions),
- Satisfy themselves that the company's leadership is effective,
- Appropriate management succession plans are in place,
- That the board receives all the information necessary to hold management to account,
- The interests of executives and shareholders are aligned,
- The financial audit is independent and accurate,
- The brand and reputation of the company is protected and enhanced.

There may be occasions when, despite discussions with companies, our concerns have not been sufficiently addressed. If a company fails to meet our expectations and we are not satisfied through our regular engagement process with the explanations provided, we will seek to escalate our concerns with the board. In the first instance, this is likely to be through further discussions with the chairman or other senior non-executives.

Such engagements are selective and focused around where we have identified particular issues. We are particularly keen to engage early with companies in order to minimise the loss of shareholder value. Factors for intervention with a company include where our assessment is that shareholder's interests are at risk as a result of a governance failing.

In making decisions as to whether to escalate our engagement we will consider the following:

- The circumstances which has led to our concern,
- The materiality of the potential negative impact,
- Best practice standards, including national guidelines,
- Any explanation provided by the company,
- The significance of the issue for our clients,
- Any pattern of concerns over a period of time,
- The likelihood of success.

If a company consistently fails to meet our expectations, or if a company's ESG disclosures are insufficient to allow for investors to gain an appropriate understanding of a company's sustainability-related risks, we may decide to vote against management proposals at the shareholder meeting, including the election of board candidates. We may also encourage more robust ESG reporting or as an ultimate sanction seek to institute changes in company strategy or in the management or board.

We regard any such action, however, as representing a breakdown in our longer-term relationship with the company. We are only likely to pursue this course when the company's performance has been extremely poor or the board has consistently ignored what we believe to be the legitimate concerns of shareholders.

We acknowledge that such direct intervention is invariably high profile and runs the risk of adverse publicity which may aggravate the situation. We endeavour at all times to keep these discussions and actions confidential.

Should no progress be made over a period of time we may choose to divest all or some of the shares held on behalf of our clients.

Collaboration with other investors

The significant nature of many of our investments provides us with access to the management and boards of companies and as a general rule our preference is to engage privately and directly with our investee companies, as we believe it better serves the interests of our clients to build long-term relationships with companies.

Where we believe the effectiveness of engagement and the chance of success can be increased we are willing to work both formally and informally with collective bodies, or to collaborate with other shareholders. This particularly applies where we have a small holding in a company where we feel that individual engagement would not have a strong likelihood of success.

Prior to undertaking any collaboration with other investors we will first review the following:

- That any collaboration or action with others investors is permitted by law and/or regulation;
- General agreement amongst investors on issues of concern and potential solutions;
- Responsiveness of management or board to direct individual engagement;
- That engagement will be private and that any public statements have our prior explicit authorisation;

As part of our collaboration efforts we maintain an active participation in both formal and informal investor networks in order to ensure that we are aware of best practice in the area of corporate governance, social and environmental matters and to improve dialogue between institutional investors and other stakeholder groups.

These include:

- UK Investor Forum
- Asian Corporate Governance Association
- U.S. Council of Institutional Investors
- Extractive Industries Transparency Initiative
- UK Corporate Governance Forum
- Institutional Investor Group on Climate Change
- Principles for Responsible Investment Clearinghouse & Collaboration Platform
- International Corporate Governance Network

Voting

We regard voting at shareholder meetings as a vital component of our overall approach to effective stewardship of our clients' assets. Voting is not an end in itself, but is an

important part of our oversight role. It enables us to voice our opinion to a company on a broad range of topics and is a way of encouraging boards to listen to and address investor concerns. A high voting turnout at general meetings can help ensure that decisions are representative of all stakeholders and not only those with large holdings or shorter-term perspectives. Voting by a large body of shareholders can protect the interests of minority investors.

We have been voting on behalf of our clients for over 20 years and do so globally so long as there is no conflict with the efficient management of client portfolios. We will engage with boards ahead of general meetings where appropriate, subject to the need to issue voting instructions to fit in with voting deadlines.

Where we have concerns with a company arising from our stewardship and engagement activities, or in relation to a particular resolution that we believe is not in the interests of our clients, we may choose not to support a particular proposal. This includes resolutions put forward by both company management and outside parties.

Due to the nature of our investment approach we will not generally seek to requisition an extraordinary general meeting or directly propose shareholder resolutions, but may choose to support proposals put forward by investors. For significant holdings, where we decide not to support the board, we will inform the company in advance, however we do not disclose our voting intentions publicly, or to third parties, ahead of a shareholder meeting.

Our voting process is incorporated within our SSAE16 external procedure validation review. On a periodic basis our approach is audited by UBS Group Internal Audit and any issues of concern reported to senior management in order to be resolved via our operational risk event remediation process.

For our investments in UK companies we support the principles of the UK Governance Code and, in particular, the emphasis on 'comply or explain'. We also have our own Global Corporate Governance Policy & Principles, which can be found on our website at:

<https://www.ubs.com/global/en/asset-management/investing/responsible-investment.html>.

Use of voting services

In order for us to meet our stewardship responsibilities it is essential that we have access to accurate information regarding the corporate governance structure and practices of companies in which we invest.

Taking into account the number of companies in which we hold shares on behalf of our clients across global markets we use the services of a specialist provider experienced in obtaining information regarding shareholder meetings held by listed companies. Such providers are able to supply the agenda of meetings, current and historical background to

each item to be voted upon and provide commentary regarding a company's governance practices.

The vendor we have chosen to partner with for this service, Institutional Shareholder Services (ISS), has both the long-term experience and global coverage we regard as being critical for this important task. Using the services of a specialist provider means we are able to focus upon determining what is in our client's best interests when deciding how to vote, and to engage effectively with companies.

We do not outsource any voting decisions to a third-party and retain full discretion when determining how to vote our client's shares. UBS Asset Management use the services of ISS and other research providers to supplement our own assessments, with our voting decisions determined according to UBS principles and not based upon the policy recommendations of any of the proxy advisory service.

Voting disclosure

Our aggregated voting record is disclosed on a quarterly basis and available on our website at the following link:

<https://www.ubs.com/global/en/asset-management/investing/responsible-investment.html>

For our regulated funds in the USA, Canada and Australia we also disclose our voting record on a fund-by-fund basis, which is also posted to our website.

Voting on stock lending positions

If we judge a vote to be particularly contentious we may recall any stock lent where we have discretion to do so, where we believe it is in our client's best interests and having given sufficient regard to the economic interests of our client portfolios. We do not borrow shares for the purpose of gaining additional voting rights.

Attendance at shareholder meetings

Given the nature of our global investments it is generally impractical for us to physically attend a shareholder meeting. However where we believe that it is in our clients' best interests we may occasionally attend, choose to speak, or vote directly at a shareholder meeting. When doing so we will seek to inform a company in advance of the reason for doing so.

Conflicts of interest

UBS Asset Management is a wholly owned subsidiary of UBS Group AG, a leading publically listed financial services group. We are committed to acting in a consistent and transparent manner. Our principal objective when considering how to vote, or whether to engage with a company, is to ensure that we fulfil our fiduciary duty by acting in the interests of our clients at all times.

Situations where actual and potential conflicts of interest can arise include where:

- The interests of one client conflict with those of another client of UBS Asset Management;

- UBS Asset Management invest on behalf of our clients in publically listed shares of UBS Group AG;
- The listed company whose shareholder meeting is being voted upon is a client of UBS Asset Management;
- Affiliates within the wider UBS Group act as advisor to the company;
- The interests of an employee of UBS Asset Management directly conflict with the interests of a client of UBS Asset Management.

UBS Asset Management has implemented the following guidelines to address conflicts of interests that arise in connection with our exercise of voting rights on behalf of clients:

- We exercise voting rights in line with UBS Principles and retain a record of any deviation from UBS policies;
- Where UBS Asset Management is aware of a conflict of interest in voting a particular proxy, the appropriate Corporate Governance Committee will be notified of the conflict and will review the intended vote to ensure that it remains consistent with UBS Principles. This includes where UBS Asset Management is invested into publically listed shares of UBS Group on behalf of our clients;
- In the event that UBS Asset Management are responsible for voting rights over a client portfolio that is invested into units of a publically traded UBS investment or mutual fund any such voting rights will not be exercised in the event that the fund announces a meeting of unitholders. In such cases any voting rights must be exercised directly by the external client or end beneficiary;
- Our proxy voting decisions will not be influenced by our general business, sales or marketing, with impacted functions remaining outside of our voting decision process;
- UBS Asset Management and its affiliates engaged in banking, broker-dealer and investment banking activities ("Affiliates") have policies in place prohibiting the sharing of certain sensitive information. UBS officers are not permitted to discuss voting intentions with an Affiliate and if they are contacted by an Affiliate, contrary to our policy, the contact will refer the matter to our Compliance & Operational Risk group. The Chair of the

Global Corporate Governance Committee will be advised, who will in turn advise the Chief Risk Officer. In specific circumstances our Compliance group may discuss the matter with their counterparts at Affiliates;

- UBS provide specific and periodic training for employees outlining their responsibilities in relation to conflicts of interest;
- Where UBS Group has provided seed capital to a fund of UBS Asset Management (UK) Ltd any voting rights arising from such capital will not be exercised;
- In accordance with UK FCA requirements we maintain a list of identified conflicts of interests, the nature of the conflict of interest and our procedure for managing the conflict.

Reporting of our Stewardship activities

We aim to provide transparency of our stewardship activities through regular reporting to our clients and via other information reported publicly online. We maintain a record of our voting, engagement and other stewardship activities.

We report to our clients on the voting and corporate engagement activities we have undertaken on a quarterly and annually basis. Where practical our reports include both qualitative and quantitative information. Our voting reports include where we have abstained or voted against the board including the reason for doing so.

At all times we are mindful that our engagement activity, especially while still current, may be confidential or sensitive and we may not choose to fully disclose all information, particularly if we feel that this may hinder the outcome of our discussions with companies.

Our approach to implementing the UN Principles of Responsible Investment is published on our website. Our efforts in integrating environmental, social and governance (ESG) issues into our investment practices have been recognised with strong results in the annual PRI reporting and assessment process. UBS Asset Management was awarded at least an A in half of the categories it was assessed on, most notably achieving A+ for the category 'Overarching Approach', versus an industry median of B.

Contact information

For more information regarding our Governance & Stewardship activities please contact us at:
SH-CORPGOV-LONDON@ubs.com

UBS Asset Management (UK) Ltd
London EC3V 9AH

This document outlines our general policies on the issues discussed. These may be subject to change according to specific circumstances. This document is intended for distribution to the clients and associates of UBS Asset Management. Use or distribution by any other person is prohibited. Copying any part of this publication without the written permission of UBS Asset Management is prohibited. The document has not been reviewed by any regulatory or other relevant authorities.

This statement is adopted by the following UBS Asset Management Entities:

UBS Asset Management (UK) Ltd
UBS Asset Management (Hong Kong) Limited
UBS Asset Management (Japan) Ltd

© UBS 2016. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved. August 2016.