Shareholder Activism Policy

Sector Investment Managers Limited's approach to its responsibility as an Institutional Shareholder

Our Policy

> **The Financial Reporting Council (FRC) in July 2010 produced the "The UK Stewardship Code"(The Code) and the Financial Services Authority (FSA) has incorporated a requirement to disclose The Code in COBS 2.2.3 with effect from 6th December 2010 on the firm's website. This document sets Sector Investment Managers Ltd's (SIM's) approach to discharging its obligations in regard to its stewardship responsibilities as required by Principle 1 of The Code.**

SIM's investment process is structured so that we invest in companies that are well managed with high standards of corporate governance and a sound management team.

It is SIM's policy to engage actively with the management of investee companies in a transparent manner and effectively monitor their performance. We focus on those companies where we have a significant shareholding as we believe it is here that we can add most value.

SIM reports on its engagement to its clients either in writing or in formal meetings.

Conflicts of Interest

> **Principle 2 of the Code requires that institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

It is SIM's policy to avoid conflicts of interest wherever possible. In the event that a conflict arises it will be disclosed to our clients and a course of action will be agreed with the client. Conflicts are managed on a case by case by case basis.

A copy of SIM's full Conflicts of Interest Policy is available upon request.

Monitoring Performance

Principle 3 of the Code requires that institutional investors should monitor the investee companies.

The Investment Team monitors the share price of investee companies on a daily basis. In addition the Team monitors market announcements including Annual Reports and other circulars and general meeting resolutions. The result of this monitoring process is brought to the attention of the Investment Committee. Prior to investment the Investment Team meets with management and following results the Team meets with management or the investment relations department of larger companies and more often if necessary.

Principle 4 of the Code requires that institutional investors should establish clear guidelines of when and how to escalate their activities as a method of protecting and enhancing shareholder value.

The Investment Committee monitors the corporate governance of investee companies.

The Committee determines whether or not action needs to be taken:

- If the company's strategy has changed
- If the company's strategy is not working

In these cases SIM would normally sell its investment.

Annual and interim accounts are analysed by the Investment Team and any points of concern are brought to the attention of the Fund Manager and/or the Investment Committee.

Meetings are scheduled with the management of investee companies at least twice a year following preliminary and interim announcements. Further meetings are held if and when necessary.

Intervening when necessary

Principle 5 of the Code requires that institutional investors should be willing to act collectively with other investors where appropriate.

SIM's primary duty to clients is to act in their best financial interests. We protect our clients' interests by effectively monitoring companies, meeting with management and having a proactive approach to voting. SIM is prepared to engage and collaborate with other institutional investors if SIM believes that it will lead to a more positive outcome.

Voting Policy

Principle 6 of the Code requires that institutional investors should have a clear policy on voting and disclosure of voting activity.

Generally, SIM has a policy to vote by proxy at all general and extraordinary meetings of companies where it is invested. Where the matter is particularly contentious, a SIM representative may be present. It does not delegate voting to any third party.

The matters to be voted on are assessed for each meeting. There may be times when SIM will vote against resolutions.

Broadly, SIM follows a policy of limiting the amount of stock directors can issue without shareholder consent to 5%.

SIM will usually vote in favour of company management except in cases where it feels that a company is not acting in the best interests of its shareholders. In these cases, SIM will either abstain or vote against resolutions.

SIM encourages executive remuneration policies that align directors' and shareholders' interests. We pay particular attention to schemes that create excessive equity dilution.

SIM pays particular attention to acquisitions and disposals. We are prepared to vote against value destructive acquisitions or disposals if necessary.

SIM does not support the funding of political parties or organisations.

There are times when engagement with management fails and at this stage it would normally be SIM's policy to sell the investment. However SIM is prepared to intervene actively by changing management either through the Chairman or the Senior Non Executive Director or as a last resort by calling an EGM. The latter is likely to happen only in extreme cases.

Evaluating and Reporting

> **Principle 7 of the Code requires that Institutional Investors should report periodically on their stewardship and voting activities.**

The Investment Committee assesses the effectiveness of engagement with management.

SIM maintains records of all its voting and engagement. SIM reports to its clients on its voting activity upon request.

Social Responsible Investment Policy

Our policy is to invest in companies based on financial criteria only.

Class Actions

SIM's policy on class actions is to review cases as they arise and discuss with our clients the merits of participating in the action. Once this dialogue has taken place an appropriate strategy is put together.

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