

Our Stewardship approach

Aberdeen's statement in respect of global Stewardship Codes
May 2017



We believe this disclosure highlights our delivery of the aims and relevant substance of the following codes of best practice:

Australia:	'Principles of Internal Governance', (FSC Standard 23), Financial Services Council, expected July 2017
Brazil:	'Amec Stewardship Code', Associação de Investidores no Mercado de Capitais, October 2016
Canada:	'Principles for Governance Monitoring, Voting and Shareholder Engagement', Canadian Coalition for Good Governance, December 2010
Denmark:	'Anbefalinger for Aktivt Ejerskab' ('Stewardship Code'), Committee on Corporate Governance, November 2016
European Union:	'Code for External Governance', EFAMA, April 2011
Germany:	'Corporate Governance Code for Asset Management Companies', German Working Group on Corporate Governance for Asset Managers, April 2005
Hong Kong:	'Principles of Responsible Ownership', Securities and Futures Commission, March 2016
Italy:	'Stewardship Principles for the Exercise of Administrative and Voting Rights in Listed Companies', Assogestioni, October 2013
Japan:	'Principles for Responsible Institutional Investors', Financial Services Agency, February 2014
Kenya:	'Stewardship Code for Institutional Investors', Capital Markets Authority, forthcoming
Korea:	'Principles on the Stewardship Responsibilities of Institutional Investors', Korea Stewardship Code Council, December 2016
Luxembourg:	'ALFI Code of Conduct for Luxembourg Investment Funds', Association of the Luxembourg Fund Industry, June 2013
Malaysia:	'Code for Institutional Investors', Minority Shareholder Watchdog Group, June 2014
Norway:	'Exercise of Ownership' industry recommendation, Verdipapirfondenes forening, June 2012
The Netherlands:	'Best Practices for Engaged Share-Ownership', Eumedion, June 2011 (currently under review)
Singapore:	'Singapore Stewardship Principles for Responsible Investors', Stewardship Asia, November 2016
South Africa:	'Code for Responsible Investing in South Africa', Institute of Directors of South Africa, February 2012
Switzerland:	'Guidelines for institutional investors, governing the exercising of participation rights in public limited companies', Ethos Foundation, January 2013
Taiwan:	'Stewardship Principles for Institutional Investors', Taiwan Stock Exchange, July 2016
Thailand:	'Investment Governance Code for Institutional Investors', Securities and Exchange Commission of Thailand, February 2017
UK:	'UK Stewardship Code', Financial Reporting Council, September 2012
USA:	'Stewardship Framework for Institutional Investors', Investor Stewardship Group, January 2017

Aberdeen as an active owner

In whatever form our investments take – whether active, passive, quantitative or otherwise, equity investments or other asset classes – Aberdeen actively considers its obligations of ownership and stewardship on behalf of clients. With relatively low turnover across our investment approaches, we prefer to hold our investments in companies for the long term and are committed to performing the stewardship role actively to support the creation of long-term value by those investments.

We invest on behalf of thousands of individuals, whether aggregated by traditional investment institutions or by wealth managers, or who invest in our products directly. We acknowledge our fiduciary duty to preserve and enhance value in the interests of all the beneficiaries on whose behalf we invest and always seek to put our clients' interests

first in everything that we do. We abide by relevant legislation and regulation, not least to help ensure our systems and our clients are not involved in inappropriate activities.

As long-term owners of companies on behalf of our clients, we regard the process of stewardship as a natural part of our investment approach. Our fund managers regularly meet with the management and non-executive directors of companies in which we actively invest, and we seek to mirror this approach across our other portfolios also. We integrate matters of governance and long-term risk management into our investment approach, and do not regard these as stand-alone matters but rather as indicators of the quality of management and the board, and thus of the company's capacity to deliver its strategy and anticipated operational performance.

Our investment teams are remunerated based on long-term performance with significant portions of reward invested alongside clients to ensure an alignment of interests.

We set out publicly our approach to governance and stewardship, basing this on global and local best practices.

An integrated approach

Aberdeen has always integrated governance matters actively into its investment process. We are clear that governance is integral to long-term financial performance by companies, and also to the fund manager's understanding of the value-creating potential of a business. Our view is that where we invest client money actively the relationship with the investee company needs to be owned by the fund manager and governance issues need to be integrated into the manager's understanding and the dialogue between fund manager and the company. In a similar way, long-term risk issues (some of these are often referred to as ESG – environmental, social and governance – risks) are actively built into the thinking of our investment teams. Given that our core approach is essentially buy and hold, with an expected holding period of forever, we believe that we need to understand long-term risks, including environmental and social matters, in order to understand the long-term value opportunity at a company, and any constraints that there may be in relation to that value opportunity.

Where material we take account of environmental, social and governance matters in our ongoing stewardship dialogue with companies.

Active monitoring of investee companies

We maintain close contact with the companies in which we actively invest client funds. This includes monitoring public disclosures and taking relevant opportunities to meet with management, other executive staff and also the non-executive directors as appropriate. We respond to company requests for input and comment, and will also share concerns proactively and clearly with the company – usually preferring to do so directly rather than through a corporate adviser. Our analysis and monitoring cover the full range of issues relevant to a long-term investor, including strategy, capital structure, operating performance, risk management and governance. We use third party research to assist our thinking, and as a source of different perspectives, as well as staying close to industry developments and the approach of competitors, trying always to ensure that we have as broad a view as possible.

We believe that our active investment approach of being long-term investors with concentrated portfolios means that we have a close understanding of the companies in which we invest. This means that we can respond pragmatically to the individual needs of companies and seek to consider what is in the best interests of the company and its shareholders at the relevant stage of its development. We maintain a detailed database of our contacts with companies to inform and reinforce our investment and ownership approach.

Inevitably, our oversight of companies in which we are only invested passively or quantitatively is less intense, but again we use external sources to stay informed and to screen for problems as they may be developing. We look to maintain dialogue with the boards of the larger companies in which we invest in this way, and seek to identify appropriate times when intervention might be called for. Among our third party sources of insight are our active relationships with other

investment institutions, which can be particularly helpful in identifying such situations. Just as with our active portfolios we seek to respond pragmatically to the circumstances and needs of the individual company from time to time, while always being conscious of best practice in particular markets.

We do not seek inside information, and actively ask companies and their advisers not to put us in possession of such information. We will make a judgement in each individual situation and where necessary for our relationship with the company and for the protection or enhancement of long-term value we may go inside for a limited period of time.

The process of engagement, and the escalation of engagement

Our regular and ongoing dialogue with investee companies forms the bedrock of our engagement. We firmly believe that engagement with a company is most effective where it is built on a long-term relationship with the board and senior management, who are more likely to see Aberdeen as a credible and committed partner. As relevant, we raise issues of concern with companies as part of this ongoing dialogue, and are not shy of sharing our views as well as asking questions and seeking insight. For us, investment meetings are a two-way process not just an opportunity to receive information. We strongly favour giving our views directly to companies rather than through their advisers.

We seek to intervene early to avoid problems arising or becoming entrenched. The concerns that we may raise from time to time are across the range of issues that go to the long term value of companies, including strategy, capital structure, operating performance, risk management and governance. We firmly believe that this is an important way to preserve value for our clients, as well as to add value over time in portfolios.

We do not regard attending AGMs, and indeed on occasions speaking at them, as an escalation of engagement. More frequently, attendance at shareholder meetings is a normal part of our active investment process, and just part of our efforts to maintain an active working relationship with the board that operates on behalf of us and other shareholders. In a similar way we will usually take up the offer of meetings with chairs of the companies in which we invest, to build a relationship and share perspectives on strategy, business operations, governance and other ESG matters. We believe that by maintaining relationships in these ways we can help address issues early and limit the need for escalation.

Where we have concerns which the normal channels of our communication have not succeeded in laying to rest or addressing effectively, we will escalate these issues. Typically this will be by proactively seeking additional meetings with members of the board, both executive and non-executive, and making our comments in an increasingly formal way. As discussed below under collective engagement, we will typically maintain contact with other shareholders and are prepared to act collaboratively where that makes sense to generate change in the interests of our clients.

While these are not our favoured routes and this would occur only after other engagement activity, we are prepared to use all available shareholder rights as part of the escalation of our engagement, including among other things lodging shareholder resolutions for forthcoming meetings, going public about concerns, calling shareholder meetings and litigation.

Again while this is not our favoured route, we will consider whether client interests may be better served by exiting from an investment.

Collective engagement

While we are always willing to act alone and express our own views clearly and individually to companies, we also actively participate in a number of investor groups around the world and will regularly engage collectively with other investors either through such formal associations or through more informal and ad hoc collaborations. We will typically do this either as part of the process of escalation of a significant concern where we believe the collaborative approach will make success more likely, or otherwise as a way of assisting in the management of the workload involved in our engagements with companies where we are invested solely on a passive or quantitative basis.

We are conscious of the limitations on collective engagement in different parts of the world. Our aim in cooperating with other investors is not to seek control of companies but to encourage boards to make changes and address the concerns of long-term shareholders, in the interests of the company and of shareholders as a whole.

We never abdicate our stewardship responsibilities to any other party and in any collaborative engagement we will speak for ourselves, never relying on others to speak for us.

Our approach to conflicts of interest

We put client interests first. While we are an independent fund manager, and so not prey to all the conflicts which may affect financial conglomerates, we are still conscious that we can face numerous conflicts of interest in respect of our stewardship work. Our simple approach is that we will always seek to act fully in clients' best interests, conscious that we are stewards of their assets on their behalf.

We have a straightforward approach to conflicts and maintain a clear and regularly updated register of conflicts of interest. This register is available to all relevant staff. See below for further information on the safeguards we have in place relating to conflicts in voting decisions.

This simple approach of acting always as a fiduciary in clients' best interests means that we believe it will be rare that client interests conflict. Circumstances might occur where some clients are exposed to one company in a transaction but not to another, or to one element of a company's capital structure but not the other; in these cases we will deliver on client interests as a long-term shareholder in each individual company. While this may mean expressing different perspectives to the two companies in such a situation we believe that this is the way we can deliver most effectively our aim of acting in client best interests.

Considered voting

We vote on all portfolios where clients have granted us voting authority. Other than in circumstances of blocking, or in other situations where the costs or challenges of voting make it not in client interests, we vote at every company meeting. We are always conscious that Aberdeen acts as agent on behalf of its clients and is not the beneficial owner of the investee company's shares.

We are proud of our considered and intelligent approach to voting, which seeks to take account of key company-specific matters and avoids a one-size-fits-all mindset. We have clear views as to what we regard as global and local best practices in terms of the issues which come to shareholder vote, but for us voting is only a formal part of the ongoing dialogue between ourselves and the company, it is not an outcome in itself, and it is certainly not the end of the process. We therefore regularly vote pragmatically, bringing our full knowledge of the company and insights into its current challenges and issues, recognising that improvement can take time and that expectations often need to be realistic in the near-term.

We set out our approach to governance in our Stewardship Principles (our framework for investment analysis, shareholder engagement and proxy voting across companies worldwide), updated from time to time and made publicly available.

Voting decisions are regularly and actively discussed within our investment teams. Where there is a disagreement over voting intentions, we debate it and escalate to a more senior member of the team. When agreement is reached, except in extremely rare occasions we will apply our single voting decision across all Aberdeen portfolios where clients have granted us voting control. We continue to explore ways in which we can vote at least a portion of portfolios in those markets where shares are blocked from trading for a period of time around voting, or where custodial chains apply similar limitations. We work actively to remove these limitations. Subject to the terms of client agreements, we regularly consider recalling shares from stocklending programmes where it is in clients' interests to maintain full voting weight on a particular meeting or resolution. We also look to recall shares on a precautionary basis where there is a controversial issue or a dissident shareholder.

We employ ISS as a service provider to deliver our voting decisions efficiently to companies. We consider the firm's recommendations as input to our voting decisions, and require them to provide recommendations more tailored to Aberdeen's assessment and approach, but are conscious always that all voting decisions are our own on behalf of our clients.

Conflicts of interest may arise in the area of voting. Among other reasons, conflicts may arise because: the company is, or is associated with, a client; a member of Aberdeen staff or a director is involved in the governance of the company; or the company has a business association with Aberdeen. We have a straightforward approach to conflicts and maintain a clear and regularly updated register of conflicts of interest. This register is visible to all relevant staff and any conflicts are specifically highlighted when voting decisions need to be taken. Additional checks are introduced into the process to ensure the conflict is acknowledged and client interests are put first. These additional checks include at least one further individual considering the voting decision and agreeing it is in client interests, and a willingness to escalate particularly complex or controversial issues for consideration by others in a chain of escalation. Our Conflicts of Interest Committee is the final point for escalation if need be^A. We ensure that our recordkeeping is particularly thorough in these situations.

^A The Aberdeen Conflicts of Interest Committee is appointed by the Risk Management Committee, from which it receives its authority. It is chaired by the Global Head of Risk and includes as its members a number of senior risk and compliance staff.

Aberdeen employees are required to take a proactive and responsible approach. If they have a personal relationship that might create a conflict of interest or give the impression of creating a conflict of interest, they recuse themselves from relevant decision-making.

Voting-related conflicts of interest in relation to Aberdeen-managed funds

There are clearly particular risks that arise in relation to voting at Aberdeen-managed funds. As a result an additional layer of conflicts management applies to those contentious classes of issue where the business interests of Aberdeen may be specifically affected by a resolution. These issues are always escalated for consideration by the conflicts of interest committee.

Contentious voting issues at Aberdeen-managed funds that always need to be escalated to the conflicts of interest committee are:

- Continuation votes
- Proposals to change manager
- Shareholder resolutions

It may be that Aberdeen decides that the conflicts in such circumstances are so great that it must abstain on these resolutions; or, where quorum requirements make this impractical, to vote client shares consistently with the proportions voted by non-conflicted investors.

Other issues at Aberdeen-managed funds can be dealt with according to the standard conflict of interest process, with at least a second member of staff always involved in agreeing to the proposed voting decision, and staff are expected to be readier to escalate issues for broader consideration.

Engagement on matters of public policy

We take an active part in policy debates and discussions, seeking to raise standards across markets because we believe that this will add value effectively for clients. In particular, we seek to improve market efficiency and transparency through enhancing standards for company reporting and securities regulations, as well as improving the regulation of company law, governance and stewardship matters. We maintain an ongoing dialogue with regulators and standard-setters around the world and will often formally respond to consultations on particular

issues. We are active members of various industry groupings and committees which among other things provide a vehicle for us to present our views on behalf of clients in a more cost-effective and time-efficient manner.

Accountability to our clients

We acknowledge that our stewardship activities are on behalf of our clients and that we have a clear obligation to be as transparent as possible about them. We look to be open and transparent with clients about our activities, and are constantly seeking to enhance our reporting on stewardship matters, both regularly to our clients and in the public arena. We recognise that this is an evolving area and we welcome client input so that we can respond as fully as possible to developing expectations.

We produce an annual public report on our stewardship activities across the world, including company-specific case studies. We are transparent to our clients on our voting decisions, and disclose publicly all voting activity on our website, one quarter in arrears, including a rationale for each vote against management.

Aberdeen produces an annual Internal Controls Report on its Investment Management Services which is subject to a Service Auditor's Report and is available to clients. The scope of this report, inter alia, includes stewardship and proxy voting and provides an assurance report on our statement of application of Principles 1, 2, 4, 6 and 7 of the UK Stewardship Code.

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