Our Stewardship Approach
incorporating voting, governance and sustainability

Improving Outcomes for Clients
2019
Our Stewardship Approach
(incorporating voting, governance and sustainability)

EXECUTIVE SUMMARY

As an active asset manager, Jupiter has always believed that stewardship should be at the heart of the investment decision we make on behalf of our clients. This a central policy document which covers our responsibilities under the EU Shareholder Rights Directive (SRD II) and FCA requirements. We are committed to improving shareholder engagement and increasing transparency around stewardship.

OUR RESPONSIBILITY AS STEWARDS OF OUR CLIENTS' CAPITAL INFORMS:

- our investment decisions, client communication and transparency
- our responsibility to seek to understand material risks associated with our investments
- the active engagement and informed voting we conduct on behalf of our clients

Our approach to stewardship is borne out of a belief that allocating capital to well-governed companies with sustainable business models enhances the potential for positive, long-term outcomes for our clients. In this document, we aim to communicate a common understanding of our philosophy and approach to stewardship to our clients and the companies in which we invest.

For us, stewardship is an umbrella term which incorporates our wider responsibilities as asset managers to understand and manage investment risks we take on behalf of our clients. This includes a duty to engage actively with companies on a range of issues where we believe that doing so can lead to better outcomes for clients. We also have a responsibility to seek to understand material environmental, social and governance ('ESG') risk factors that might affect the outcome of an investment. The challenge for us is to understand the materiality of these risks, in the same way that we do with other risk factors via traditional financial analysis, and to encourage companies to manage these risks appropriately.

We are signatories to a number of industry-wide stewardship initiatives including the UN’s Principles of Responsible Investment ('PRI') and the UK Stewardship Code. We also support the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) and firmly believe that our policies at a corporate level should be aligned with our asset management activities. To achieve these aims, we have further strengthened our oversight of stewardship matters in 2019. Stewardship is now a formal component of each fund manager’s objectives and each fund manager is required to articulate and evidence their active ownership approach. The Chief Investment Officer ('CIO')’s Office oversees these objectives and monitors, reviews and assists our investment personnel in meeting them. Through this oversight environmental, social and governance factors are integrated across the investment floor.

To further enhance internal communication on stewardship matters, we have merged the Stewardship and Sustainability Review Committees into a single body. In 2019, the unified Stewardship Committee provides a platform to coordinate and review engagement across the different asset classes in which Jupiter invests and to debate whether we are receiving the desired response from companies. We recognise that our stewardship responsibilities on behalf of clients extend across all asset classes and this document also sets out our approach to stewardship beyond listed equity, specifically with regards to fixed income and multi-manager investments ('fund of funds').
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INVESTMENT STYLE AND STEWARDSHIP APPROACH

APPROACH AND PRINCIPLES

Jupiter is an active asset manager with an established track record of delivering outperformance for our clients. We seek to maintain a high-performance culture, which is both collaborative and values independence of thought. We believe the best outcomes for our clients are achieved through our unconstrained and conviction-led approach to active investing.

Fund manager accountability and leadership on stewardship is an important part of our investment approach. As such, our fund managers are directly involved in voting and engagement activities, working in close partnership with Jupiter’s Governance and Sustainability team. We aim to apply intelligent judgement to our stewardship and voting decisions, behaving as active owners of the assets in which we invest on behalf of our clients.

We are signatories to the UN PRI, and to the Stewardship Codes of the UK and Japan. We firmly believe that our policies at a corporate level should be aligned with our asset management activities. We also support the FSB Task Force on Climate-related Financial Disclosures (TCFD), which aims to promote a more informed understanding of climate-related risks and opportunities by investors and others.

Our active investment approach means that we only invest in shares or debt issued by companies when we believe it in our clients’ best interests to do so. These are companies in which we perceive a long-term value opportunity and our analysis appropriately incorporates material risk factors including environmental, social and governance ‘ESG’ issues. In essence, our aim is to deliver long-term returns for our clients within agreed investment parameters and careful stewardship is key to achieving this goal on their behalf.

While stewardship obligations may be executed in varying ways across different asset classes, we understand that the PRI and the Stewardship Codes set high expectations in regard to our stewardship approach across the firm. We thus seek to integrate ESG factors as appropriate to our investment style and approach across all asset classes. In this document, the term ‘companies’ is not restricted to public equity only, but also relates to fixed income and multi-manager investments.

TERMINOLOGY

The industry is awash with interchangeable terms and acronyms which can be confusing for clients, investors and companies alike.

This is understandable given the varying nature of client demands, the breadth of ESG approaches and products, and the ensuing debate about the wider purpose of the asset management industry in terms of delivery, value to clients and contribution to the economy and society.

In a positive move, the sector has been working together to consider issues such as industry agreed definitions, product labelling and disclosure frameworks. Jupiter has been involved in such discussions during 2018 and will continue to do so in 2019. However, for the purpose of this document, it is valuable to articulate our own philosophical belief around terms like ESG and how these motivations are considered and executed on behalf of our clients.

We prefer to consider the wider conceptual framework of governance and sustainability within the overarching principle of stewardship. For us, this focus reinforces the critical importance of being responsible for ‘other people’s money’ and striving to generate returns for our clients.

Stewardship is not simply a technical or policy area that is linked to the investor assessment and behaviours around material risks impacting longer term value. We also consider stewardship as a positive cultural force that embodies the relationship between us as investors, our clients and investee companies.
INTERNAL GOVERNANCE

OVERSIGHT FROM THE CIO OFFICE

We have reflected on the importance of embedding stewardship within our organisation’s culture and the CIO’s Office plays a central role in this regard. Stewardship is formally a component of each fund manager’s objectives and each fund manager has unique stewardship priorities. The CIO Office oversees these objectives and monitors, reviews and assists our investment personnel in meeting them. Through this oversight analysis of material ESG factors is integrated across the investment team.

The approach does not curb the fund managers’ freedom to follow their investment convictions, but rather helps to ensure that there is a consistent approach to assessing and engaging with companies, as well as to governance and sustainability issues across different asset classes and in the organisation as a whole. This approach to oversight also ensures that our culture with regards to particular ESG factors advances consistently and awareness deepens throughout the department.

GOVERNANCE AND SUSTAINABILITY TEAM

Our Governance and Sustainability team are part of the fund management department and report to the CIO. The team work closely with our fund managers to deliver our stewardship commitments. Among other activities, the team helps identify relevant ESG factors that might affect the business performance of investee companies. The team aims to complement decision-making and monitoring by facilitating the integration of long-term factors that traditional financial analysis has sometimes neglected, providing specialist insights to the fund managers who are best placed to identify the factors which are most material to corporate and investment performance.

The close working relationship between the Governance and Sustainability team and our fund managers results in an alignment of efforts. This is something we believe makes us more effective in our dialogue with management teams and independent directors. We do not seek ESG improvements for their own sake but rather seek to understand the potential material impact of these factors on the performance of a business and on long-term value creation for our clients.

In relation to governance, we tend to focus on how effectively and efficiently a business is run with the aim of helping to preserve and enhance value in the long run. Environmental and social matters are typically assessed as part of a wider effort to understand the sustainability of an investee company’s business model, and we will engage as appropriate to help reinforce or potentially improve this sustainability.

To strengthen Jupiter’s capabilities, the CIO Office has invested in third-party ESG risk data and additional ESG personnel to help fund managers with their voting and engagement activities. The data is deployed in two ways: i) to augment day-to-day investee company monitoring, engagement and voting assessment at portfolio level and ii) CIO Office analysis of the ESG risk profile of our total assets under management.

i) The data is used in conjunction with our existing research capabilities to enhance our understanding of companies, monitor for controversies, contribute to our engagement planning and develop the dialogue between fund managers and the Governance and Sustainability team.

ii) The data is utilised by the CIO Office with respect to management oversight. This involves analysis of our total assets under management to assess the overall ESG risk profile of our organisation. This process includes information relating to controversies and the environment, and specifically climate-related risks and opportunities. The CIO Office also uses this data to review individual portfolios and consult managers during the formal review process.

ORGANISATIONAL ALIGNMENT: STEWARDSHIP AND CORPORATE SOCIAL RESPONSIBILITY COMMITTEES

To provide additional oversight, Jupiter’s Stewardship Committee provides a platform to co-ordinate and review engagement across the different asset classes in which Jupiter invests and to debate whether we are receiving the desired response from companies. Chaired by the CIO, the committee also considers the external ESG landscape and trends in the wider investment industry and public policy. Other committee members include the Head of Governance and Sustainability, fund manager representatives from our equity, fixed income and fund-of-fund strategies, as well as governance and sustainability specialists. The Vice Chairman of Jupiter Fund Management plc (JFM) is also a member which strengthens the alignment of these considerations across the organisation and improves the communication of stewardship matters to the JFM Board.
The Executive Committee of JFM plc has also established a Corporate Social Responsibility ('CSR') Committee. This committee is concerned with the wider CSR responsibilities of JFM (e.g. environmental impact, charitable giving, employee satisfaction, health and safety) and does not have authority over the actions of the Stewardship Committee. Nevertheless, high-level information from the Stewardship Committee is relayed to the CSR Committee, which is valuable because our stewardship activities are an important part of JFM’s wider business purpose. In addition, this information also helps to educate and inform senior management and thereby helps to further ingrain and support our stewardship culture and awareness across the firm. The CSR Committee contains representatives from JFM’s Executive Committee and the Head of Governance and Sustainability.

Voting and engagement decisions are only formulated by the fund managers and the Governance and Sustainability team. Members of JFM’s Executive Committee or Board do not seek to influence voting and engagement decisions.

CONSISTENCY AND DELIVERY FOR CLIENTS

When engaging with companies we seek to be aligned in our views, putting our clients’ interests in the strongest position. Investee companies tell us that they often receive inconsistent signals from different arms of asset management houses (i.e. ESG teams and investment teams). In contrast, our unified approach means there is no risk of confused messaging. Our investee companies receive a coordinated position from us throughout engagement dialogue, including voting decisions. This consistent and long-standing approach contributes to increased awareness of stewardship issues among our fund managers. In turn, this approach contributes to internal culture and leads to clear communication of our responsibilities to clients.

ENGAGEMENT PRIORITIES:
WHAT WE SEEK FROM INVESTEES COMPANY

We operate in an environment that is continually changing and subject to vast information flows. As a result, we remain open to the prospect that any company we invest in may present specific issues that require our assessment. There are also times when we are required to support companies or accommodate requests for engagement from management teams. Consequently, engagement decisions are taken on a case-by-case basis, and with due consideration for the following issues:

- client-sponsored initiatives or requests
- collaborative activity
- the size of our position
- whether the company is a new position

Below is a representative list of the types of themes that might trigger an engagement. Governance and sustainability issues are often interconnected and a single engagement may relate to multiple stewardship themes. For example, when engaging on remuneration we will routinely consider how stakeholder considerations such as health and safety, customer service and employee engagement are incorporated into remuneration outcomes. Correspondingly, our dialogue with companies on climate-related issues often examines how oversight of these matters is incorporated into formal governance structures. As such, the below themes should be viewed as different facets of our stewardship dialogue with companies, rather than as standalone engagement topics:

- Routine monitoring or relationship meetings
- Succession (management and board levels)
- Leadership changes
- Stakeholder agenda (environment, employee and customers)
- Climate-related risks and strategies
- Mergers and acquisitions
- Corporate strategy and culture
- Board effectiveness and composition
- Performance and financial issues
- Political risk
- Regulation, conduct or cyber security
- Remuneration
We aim to be reliable owners of trustworthy businesses that are led by managers with a long-term mindset. As stewards of our clients’ assets, we believe it is fundamentally important that our approach is not one based on box-ticking, but is rather founded on the application of intelligent considerations of what will best support the long-term success of a business. To this end, we seek to build relationships with company leaders, both the management and non-executive directors, to understand their perspectives and to share constructive views. We seek to encourage long-term value creation and will support boards that have a clear and appropriate strategy. We will engage when we have concerns about the strategy or the structures put in place to deliver that strategy.

COLLECTIVE ENGAGEMENT

Collective engagement can be an effective pathway to leverage influence with companies to help reach desirable outcomes. We have successfully worked with our peers for the shared benefit of our clients and support the principle of collective engagement. We remain open for dialogue with external parties and consider subsequent actions on a case by case basis.

This type of engagement is often seen within the context of holding boards to account. However, it is also important to stress that collaborations are applied in various circumstances and not only restricted to problematic scenarios. Working together with other organisations can enhance understanding and is also valuable when considering major systematic issues such as climate change. Therefore, our collaborations will concern company-specific issues, but where relevant, we are also engaged with domestic and overseas regulators, thinktanks and investor groups on the wider stewardship policy agenda.

CONFLICTS OF INTEREST

We recognise the importance of managing potential conflicts of interest on behalf of its clients when voting their shares and engaging with investee companies. Our published Group Conflicts of Interest Policy is available at www.jupiteram.com.

Jupiter is an independent asset manager, we are not attached to a larger financial services group. Conflicts may arise when clients are also companies in which Jupiter invests. In these circumstances, contentious issues are discussed with the relevant fund managers and the CIO. In addition, there will be close engagement with the company, including where the issue may relate to a voting matter. In this instance, Jupiter will vote in the best interests of the funds/clients who hold shares in the company, using the principles of Treating Customers Fairly (TCF). Where applicable, Jupiter will obtain advance approval from the client prior to voting.

ENGAGEMENT AND BUSINESS PERFORMANCE

We identify six key drivers of long-term business performance, which we seek to encourage in our dialogue with management teams and boards, and aim to reinforce through our voting decisions:

- Long-term strategic planning
- Protection of investor rights and interests
- Appropriate management of risk exposures
- Independent and effective boards
- Tailored and appropriate remuneration structures
- Transparency and culture

LONG-TERM STRATEGIC PLANNING

We recognise that for a company to succeed over the long-term it needs to identify a clear market opportunity, deliver value for its customers and build defensible business models. This requires investment in appropriate resources, including stakeholder relationships. Successful companies need a sustainable capital structure, which offers an appropriate return to providers of capital.

As investors, we understand the need to give companies the space to develop their strategies. But as careful stewards, we have a responsibility to engage and intervene in a business if we believe that change is necessary, including where it appears to us that the business is being run with a short-term mindset that risks damaging long-term prospects. Where we believe that a company’s capital structure and approach to returns for investors is not sustainable, we will seek positive change, which will be reflected in any voting on share issuance authorities, buyback proposals or dividend resolutions.
We believe the optimum capital structure for a company in the long-term involves a simple shareholding structure. We fundamentally believe that each share should have equal voting rights and oppose the creation of non-voting shares.

**PROTECTION OF INVESTOR RIGHTS AND INTERESTS**

We expect companies to deal fairly with investors. As such, we believe any substantial change to the nature of the business should be subject to a shareholder vote. We believe that investors should have the right to determine whether a takeover, merger or restructuring is the right thing for the company, and thus oppose the use of anti-takeover devices. In a similar way, shareholders should have the right to maintain their stake in a business and should not be subject to dilution without being able to consent; we thus carefully guard pre-emption rights.

While we believe that companies need some flexibility to manage their capital structure effectively and, when necessary, to raise additional capital in a timely and cost-efficient manner, we regard pre-emption rights as being fundamental in providing protection for shareholders against their holding being diluted. Thus, we will closely consider management resolutions seeking capital authorities (with and without pre-emption rights) and will take into account the size and stage of development of the company when assessing share issuance requests. Smaller companies may be afforded greater flexibility, subject to sufficient justification. In assessing all capital requests, any potential dilutive impact on our clients’ shareholdings is carefully evaluated.

Jupiter will generally support increases to capital stock for legitimate financing requirements provided they are in the best interest of shareholders. As a rule, we believe that capital requests should meet the standard pre-emption guidelines of their local market jurisdictions. We strongly encourage prior consultation with shareholders if companies are seeking non-routine share issuance authorities (i.e. in excess of local market guidelines) and Jupiter will not generally support these where the company has not provided sufficient justification.

With regard to takeovers, mergers and restructuring, Jupiter assesses each case individually and decides whether a proposal is in the best interests of shareholders. Each decision is based primarily on the views of our fund managers. We will engage and vote against deals where we believe the terms do not reflect a company's strategic and fundamental value. We will also vote against transactions where we feel minority interests have been compromised in the approach, structure and/or terms of the deal. We will not support proposals if we have reservations over the strategic rationale, governance or funding of a transaction.

Anti-takeover provisions (often referred to as 'poison pills') risk entrenching management and thus can potentially damage shareholder value. We therefore believe that these should be avoided or, at a minimum, be put to shareholders for approval. We will vote against the directors at an AGM if a poison pill was renewed or implemented during a period but was not subject to shareholder approval. We will also support shareholder proposals to redeem poison pills. We expect companies to explain the rationale for introducing any such device and to introduce appropriate checks and balances in order to protect the interests of shareholders.

**APPROPRIATE MANAGEMENT OF RISK EXPOSURES**

We expect that companies running themselves effectively with a long-term mindset will manage their key risks well and maintain their key relationships appropriately. Risk is a board-level issue and we look to see that the board will take full ownership of these concerns, typically through the audit committee or a specialist board committee. Boards should be open and transparent in reporting on their deliberations and disclose enough insights to give investors confidence that they have in fact considered relevant issues and managed and mitigated key risk factors. Where companies are required to issue a viability statement, we ask that these look out over the investment planning horizon of the business, not simply over the minimum period required by regulation.

**ENVIRONMENT AND CLIMATE CHANGE**

As investors actively engaged with the specific circumstances of individual companies, we fully recognise that key risks, including environmental risks, vary between companies, and that the approach to them must be tailored to the sector and to individual businesses. Nevertheless, there are some issues that extend across most, if not all, companies. Climate change is one of these and is therefore an important focus for Jupiter. We firmly support the recommendations of the TCFD, which recognises climate change as a board-level issue and seeks disclosure of strategic planning in relation to climate risks, including practical responses to both physical and transition risks. We will continue actively to engage with investee companies to encourage them to respond appropriately to the TCFD recommendations, across all four dimensions of governance, strategy, risk management, and metrics/targets. We particularly value scenario planning, recognising this as a vital tool for companies to understand how their risk exposures may develop,
which in turn adds to our understanding of the risk exposures we are taking on behalf of our clients. In addition, we seek to quantify the CO2 exposures of our portfolios as a whole, in order to help clients to understand the exposures of their portfolios in general and potential risks should carbon constraints be introduced.

It is rare for there to be management resolutions relating specifically to environmental risks, but shareholder proposals increasingly relate to such issues. We assess all shareholder proposals on a case-by-case basis. In certain situations, it may be appropriate to engage with proponents, shareholder activists or other representatives when considering shareholder proposals. Jupiter is open to engaging with other stakeholders when it is considered constructive to do so. We are members of the Institutional Investors Group on Climate Change (IIGCC), a forum created to develop a collective approach to climate issues by asset managers. Our IIGCC membership facilitates collective engagement in cases where investee companies are vulnerable to energy transition risks.

INDEPENDENT AND EFFECTIVE BOARDS

In order to deliver long-term business success and so create long-term value, every company needs to be overseen by an effective board which is collectively accountable to shareholders. The boardroom is characterised by the personalities of its directors and the quality of the key relationships they have with the business, such as between the chair and the CEO. It is important that those personalities and relationships foster an open and supportive decision-making environment in which decisions and strategies can be scrutinised and challenged. A diverse board with a range of skills, backgrounds and experience, is a key part of delivering the healthy debate that characterises an effective boardroom.

Jupiter strongly favours the separation of the roles of chair and CEO to ensure a balance of power and authority and to differentiate the two key tasks at the top of the company: the running of the board, and the executive responsibility for running the business. If, in exceptional circumstances, the roles are combined, the board must have a strong independent element and heed the guidance of a designated senior independent non-executive or lead director. We are likely to vote to reflect these views, opposing the election of a director holding both roles in markets where this is unusual, unless the reason for the combination is clearly explained and strictly time-limited. We tend to support proposals to split those roles in markets where they are commonly combined (such as the US and France). Further, we will not ordinarily support proposals for a CEO to succeed to the post of chair or the transition of another internal non-executive seat without compelling reasons from the company.

We will assess director elections on a case-by-case basis and pay particular attention to the attributes, skills and credentials of a director when considering their suitability. We may elect to vote against directors if we consider their performance or history at other companies has contributed to value destruction or financial distress.

For boards to be effective, they need to be substantively independent of the executive team and of any major shareholders. Nevertheless, we recognise that there can be practical constraints to a majority independent board in some circumstances, including at state-controlled firms or family-run companies. Generally, we will support boards that meet local market best practice requirements and will be flexible in situations where a company has a controlling or significant shareholder. Our expectation is that the chairs of the audit and remuneration committees should be independent, and we may oppose the election of individuals in such roles who we do not consider to be fully independent.

We recognise several factors that can impact the independence of directors, including:

- lengthy tenure
- previous employment with the company
- having an ongoing material relationship with the company or key individuals related to it
- representing a major shareholder
- receiving incentive pay.

We understand that not every director needs to be perceived as independent, that independence is best assessed in the context of the overall board composition, and the key criterion is ultimately whether boards are effective and open to being challenged. These are qualities that we seek in the boards of investee companies. We therefore take a broader view than a simple understanding of individual independence. In a similar way, we believe the value of a tenure guideline lies in its ability to drive the refreshment of
board overall rather than to limit the tenure of particular individuals. We will vote against nominees where we believe there is a unhealthy majority of long-serving directors on a board and the balance no longer seems appropriate.

It is reasonable to expect that each director has sufficient time to perform their role effectively, and in many cases we are willing to show patience, including where a company is potentially in crisis. However, if it appears to us that an individual is too busy to perform their role effectively, or is clearly not offering the time that we would expect, we are likely to oppose their re-election. We do not set a limit on the number of other directorships a non-executive director may hold but prefer to apply intelligent judgement to the individual’s circumstances and the commitment expected by their various roles. We support a serving CEO taking one non-executive director position as we believe an additional role can add perspective and value for their employer, but we are likely to oppose the holding of more than one external directorship.

**DIVERSITY**

Through engagement with chairs we have encountered various cases where group-think at board level has contributed to poor decision-making and underperformance, which has been exacerbated by a lack of diversity in the widest sense. We want boards to build an effective and entrepreneurial culture that harnesses a range of perspectives and experiences. Board diversity is an important area and we consider this issue when discussing board effectiveness and composition with chairs.

Gender can be a prominent part of these discussions and we consider a broad range of issues, including diversity of leadership experience, expertise, market geographies and backgrounds, when considering board-related developments. We understand that board succession and the appointments process can take time to be concluded. In terms of voting, we look to understand the progress that has been made with respect to diversity and the overall needs of the board. Votes against a chairman or nomination committee chair will be considered when assessing the overall board effectiveness and composition.

We also think diversity is an important consideration when boards consider a company’s management talent pipeline, and inclusion at the entry level (e.g. graduates/apprentices) is an equally important engagement topic in our conversations with chairs.

**TAILORED AND APPROPRIATE REMUNERATION STRUCTURES**

We favour companies in which long-term, performance-linked remuneration rewards the creation of value in a business (rather than its extraction), to the ultimate benefit of stakeholders. We expect boards to provide transparency when it comes to decision-making and clear explanations of why key decisions are in the interests of the business. We also expect remuneration committees to consider the pay and incentives of the wider workforce and how these support the sustainable performance of the business over the long term.

We recognise that businesses operate in competitive environments and acknowledge the pressures on companies to offer pay and incentive packages capable of attracting, retaining and motivating talented executives. With that in mind, we cannot support payments that appear excessive and believe our stewardship approach to executive pay should include a rigorous analysis of how a strategy is executed and whether a company’s pay framework incentivises appropriate management behaviours and strikes a balance between short and long-term growth. These strategic considerations form the core of our remuneration dialogue.

As a general policy, we will firmly oppose situations, and the responsible individuals, where we believe that there has been:

- a reward for failure or payments that are sharply misaligned with performance and shareholder returns
- unjustifiable increases in overall incentive packages
- situations where we believe accounting practices used to measure pay outcomes have not appropriately reflected the underlying financial returns to shareholders
- payments made for questionable stakeholder developments (e.g. significant health and safety breaches or environmental concerns).

We encourage committees to monitor grant policies and discourage the granting of continuous maximum awards, regardless of corporate and share price performance. We are mindful that windfall gains may arise if maximum grants are maintained during a substantial share price decline and would expect the number of shares granted to be reduced in this scenario.
Remuneration is not considered in isolation but is assessed within the context of its alignment with strategy and shareholder interests, management competence, corporate behaviour, succession, long-term performance, wider governance issues and the equitable distribution of rewards between management and stakeholders. We also take into consideration sector and industry dynamics.

Base pay should be set at a level which reflects the role and responsibility of the individual. We expect committees to fully explain their rationale for implementing significant increases, which we believe are only likely to be justified by developments such as performance attainment, additional responsibilities and promotion. Committees should be aware of the multiplicative impact of salary increases on total pay and be mindful of business-wide pay dynamics when determining the salaries of executive directors. In our view, pension contributions for executive directors should be in line with those for the wider workforce.

We recognise that there are sometimes commercial sensitivities on these issues, but we expect an appropriate level of transparency from remuneration committees such that we can gain confidence they have taken appropriate decisions in all circumstances. This applies particularly to any decisions around incentive pay, whether bonus awards or longer-term incentives. Performance targets should reflect the strategic aims of the business, and threshold and maximum performance levels need to be set at levels that reflect strong strategic delivery by the business. Executive performance should be judged fairly against the targets set; in some circumstances this may require the application of discretion to reduce awards even if targets have been reached. Remuneration committees need to judge carefully whether the proposed recompense is warranted by the value delivered within the business; this is the approach that we as shareholders will always seek to apply.

We encourage bonus structures that require a portion of the award to be deferred in shares for a defined period as this supports greater alignment with shareholders. We are supportive of restricted share schemes, but believe that the greater certainty of such reward structures should lead to a reduction in quantum.

To minimise severance payments, Jupiter favours notice or contract periods that do not exceed one year and will not support enhanced notice periods in the event of a change of control. In addition, remuneration committees should take a robust line on restricting severance compensation to avoid rewarding poor performance. They should also take account of the circumstances of termination and of an executive director’s duty to mitigate loss so as to reduce the cost to the company, and should carefully consider the compensation commitments (including pension contributions and all other elements) that executive directors’ terms of appointment would entail in the event of early termination.

Although we do not uniformly rule out so-called value creation plans (VCPs), we typically express caution to companies about the implementation of these plans. VCPs are tailored compensation structures which differ from traditional long-term incentive plans (LTIPs). They typically deliver a pre-agreed award of shares to the CEO and executive directors based on the achievement of an absolute share-price hurdle. The remuneration outcome of VCPs are often opaque. Unlike LTIPs, where awards are usually based on a multiple of salary, it can be hard to estimate the maximum awards available to executive directors under the scheme. In addition, awards based solely on a company’s share price do not necessarily reflect the manager’s contribution to the business. These schemes should be used as a one-off to address specific circumstances, rather than form the centrepiece of a policy.

**TRANSPARENCY AND CULTURE**

We expect every company in which we invest to be open and honest with its investors, to provide transparent public reporting and to make executives available for dialogue about performance and the future delivery of their strategies. We recognise that transparency is an important element of building openness and trust with staff that is central to sustaining a culture that can foster continuing business success. Culture is dynamic and requires commitment; while codes of conduct are important, they are rarely sufficient on their own and rely on genuine management commitment to be effective.

**FINANCIAL REPORTING STANDARDS**

We support standardised financial reporting, which aids the understanding of company statements and allows us to compare a company with its peers. We thus support the development of IFRS and welcome its increased adoption globally, and plan to participate in dialogue to further enhance standards for financial reporting. We acknowledge that every company is different and as active managers, we seek to understand the specific circumstances of individual businesses. We therefore recognise that some companies need to produce non-GAAP reporting, but expect the rationale for their reporting method to be justified and clearly reconciled in a company’s audited financial statements.
Independent and effective auditing is essential for upholding market confidence in reported numbers. We therefore support the appointment of independent auditors and typically oppose auditor appointments where we perceive conflicts or a lack of independence or detect that an audit was rushed or lacked due diligence. We expect companies to have sufficient and effective controls such that management and the board fully understand what is developing within the business, including properly resourced risk and internal audit functions.

**VOTE DECISION-MAKING PROCESS**

The Governance and Sustainability team is responsible for proxy voting operations, the monitoring of shareholder meeting ballots and providing an initial assessment of each meeting’s agenda, including the use of independent proxy advisory research. Depending on whether the fund manager has provided advanced voting guidelines, or we have previously engaged with the company and have finalised a vote, the Governance and Sustainability team will highlight controversial or anomalous issues to our fund managers. On occasions, we might require further engagement with the company to clarify our understanding or to press for change before a voting decision can be formulated.

Jupiter’s starting point is to support management, provided we are satisfied with the company’s general business conduct and governance structure.

**ANNUAL GENERAL MEETING (‘AGM’) ATTENDANCE**

We process our voting instructions electronically via a third-party proxy voting agent. It is not standard practice for us to attend AGMs as most of our engagement with companies is conducted on a one-to-one basis, or collectively with other institutional investors. However, we will attend an AGM where we consider this to be the most effective means of communicating with the company. We will also appoint representatives to attend and vote at overseas meetings.

**POWERS OF ATTORNEY AND SHARE BLOCKING**

We endeavour to vote wherever possible and practicable, taking into consideration local market and third-party requirements, such as powers of attorney and share blocking. As the practice of share blocking inhibits trading in securities, we consider this to be potentially restrictive to our investment activities and therefore we are selective when voting in certain overseas jurisdictions where share blocking occurs.

**STOCK LENDING**

Jupiter does not engage directly in stock lending. However, our clients are free to enter into such agreements in accordance with their own policies, including the decision to recall stock. These decisions are taken independently of Jupiter. On occasion, where our clients engage in stock lending, we may, at our discretion, discuss with them the option of recalling their stock in order to vote on significant investment-related matters.

**FIXED INCOME STEWARDSHIP**

While bondholders rarely have recourse to ownership rights, such as voting rights, which are typically available to shareholders, in our view this does not diminish our stewardship responsibilities when it comes to fixed income investing. Our expectations of company behaviour, the appropriate management of risk exposures and drivers of long-term performance are the same whether we are bondholders or shareholders. This policy statement covers all asset classes within the fixed income universe including corporate credit (both investment grade and high yield), sovereign, securitised and other types of fixed income investments.

Responsibility for fixed income stewardship resides ultimately with each fund manager. Within the fixed income team, the Head of Credit Research has a formal role in managing how our team of credit analysts approach the identification and analysis of material ESG factors when conducting fundamental investment research. Their assessment covers a broad range of ESG risk factors using categorisations based on their investment experience and developed with the input of Jupiter’s in-house Governance and Sustainability specialists. These factors include environmental and climate-related impact, labour practices within the company and its supply chain, corporate behaviour and business ethics. Details of material issues identified are included in the research notes prepared by the analysts and assessed by the fund managers. This research is often informed by initial company engagement.
undertaken by the analysts, who also draw on the Governance and Sustainability team’s experience of engaging with companies across a wide range of sectors and geographies and identifying material ESG risks.

Once invested, the team regularly engages with the management teams of investee companies as part of their investment process. Engagement is conducted primarily to inform our investment approach and this includes reviewing material relevant ESG risk factors and assessing how the company manages these risks. However, the team will seek to influence management where this is considered appropriate and in the interests of clients. The team also participates in a regular portfolio review process conducted by the Governance and Sustainability team, in which material ESG risk factors are discussed and potential areas for company engagement are identified.

Our approach to monitoring and engagement varies depending on the type of security being considered. The level of ESG disclosures varies considerably between the different asset classes and geographies in which we invest. For example, there are typically fewer ESG disclosures in the high yield market due to the prevalence of private companies. We utilise direct engagement with issuers to gain investment insights and to understand relevant ESG considerations.

Below are themes that may arise in our ESG analysis and engagement with investee companies. This does not represent an exhaustive list but indicates how stewardship factors are incorporated into the team’s process.

- The strategic track record of the management team and prevalent corporate culture with regard to risk appetite, conduct, safety and regulation.
- The track record and credibility of the issue sponsor with regards to respecting bondholder rights.
- Assessment of remuneration disclosures, where these are available, to consider executive alignment.
- Ownership structures, such as the reputation of the controlling shareholder and their degree of control over a company’s board, the level of employee ownership and other factors which may indicate the level of alignment with bondholders.
- Controversies, jurisdictional risks and the management of social and environmental risk factors which may affect the evolution of a company’s credit risk over time.

When assessing sovereign bonds we consider governance and social factors such as a country’s political stability and cohesion and the credibility of its political and monetary institutions. We will often conduct research trips to engage with government departments, policy makers, NGOs and multilateral institutions to understand these risks. In emerging economies, we pay particular attention to the risk of sanctions being imposed and conduct engagement to inform our understanding of these risks, such as a country’s potential for civil unrest. We also consider social and environmental factors, paying particular attention to demographic trends which may support economic growth over the long term and factors such as a country’s reliance on high international oil prices to sustain its public finances.

Instances of proxy voting are relatively rare for holders of fixed income securities. However, where a bondholder meeting is called, the fund manager will consider each voting decision on a case-by-case basis and vote in a judicious manner on behalf of clients, engaging with the issuer and other stakeholders where this is considered beneficial.

**FUND OF FUNDS: JUPITER INDEPENDENT FUNDS TEAM (‘JIFT’)**

Being a fund of funds (as opposed to holding equities or fixed interest directly), JIFT’s stewardship applies at two distinct levels: at the Jupiter portfolio level and at the underlying fund level.

**JUPITER FUND OF FUNDS PORTFOLIOS**

All portfolios adhere to precisely the same investment philosophy and process. The objective is to deliver superior returns to clients after fees, allowing them to compound wealth over time. All prioritise transparency and simplicity, allowing retail clients to understand where their savings are invested: so complex, opaque, levered, exotic and structured underlying funds are typically
avoided. The portfolios price daily, therefore most underlying funds and assets held are highly liquid. Turnover is generally low. JIFT prioritises extensive intermediary contact with two client roadshows annually, coupled with online content which uses ordinary language, avoiding excessive financial jargon.

**FUND LEVEL MONITORING**

The JIFT investment process is designed to identify active managers who generate repeatable post-fee alpha. This is a rare skill and where found, is usually the output of a robust investment process. The team tends towards fund managers who invest client capital for longer periods, and this is an important stewardship consideration. Our fund managers often invest in a relatively limited number of companies, which also provides focus on the active ownership aspect. It is important to note that how managers conduct their company selection and ownership duties differs widely, particularly with reference to the size of assets invested, investment process and asset class. What is laudable for one manager may not be appropriate for another. Moreover, responsibility for adhesion to stated processes, policies and disclosure resides firmly in the domain of the manager.

Once selected, ongoing monitoring of underlying managers is robust. JIFT interviews each manager generally every six months. Current portfolio holdings are reviewed, exploring how managers have adhered to their investment philosophy and process and fund changes are examined. Voting and effective engagement with investee companies is a natural activity of most long-term owners; these reports form part of the data acquired by JIFT. The meetings allow JIFT to discuss specific company examples, finding out how managers have deployed their stewardship policies and signatory duties on behalf of their clients as well as discussing how the fund manager has performed and is likely to perform in the future. Particular attention is paid to:

- The financial metrics, especially valuation and leverage of investee companies, and of the fund versus the respective benchmark.
- Specific examples of engagement by the managers with investee companies (which can be manager-led, company-led and/or collective) and their impact over time.
- The evolution of sustainability and governance within their own investment process, company and associated agents.

JIFT’s ability to explore these areas constructively is enhanced by embracing the manager-led, in-house intelligence from Jupiter’s own Governance and Sustainability team. The team provide JIFT with a rich seam of pertinent company and ESG expertise, affording a better informed and more effective debate when evaluating and monitoring investment and governance activities by underlying fund managers.

Finally, when conducting on-site manager due diligence visits of external managers, JIFT typically meets in-house governance specialists to gain a deeper understanding of the manager and company’s stewardship development. JIFT has also contributed to their ESG consultations when requested.

**REVIEW OF THIS POLICY**

We formally review our policy on an annual basis and seek to absorb relevant developments from best practice guidance. This policy was also created by considering client priorities, input from fund managers and specialists and reflecting on Jupiter’s engagement experience with companies. This policy was approved by the CIO in March 2019 and subsequently updated in June 2019 due to SRD II developments.