Stewardship Activity Report

Report of activities of Aberdeen Asset Management
for the 12 months to 30 September 2017

This Report

This is the final public Annual Stewardship Activity Report from Aberdeen Asset Management. As previously, we are reporting the year to the end of September and in August 2017 our merger with Standard Life PLC was completed, leading to the creation of Aberdeen Standard Investments. Given that the asset management firms were operating separately for the bulk of the period, each asset manager is reporting individually on our stewardship activities in 2017. We look forward to producing a joint public stewardship report in 2018.

Naturally, the terms 'we', 'us' and 'our' in this report refer to Aberdeen Asset Management, not the combined entity.

Our philosophy and approach

Aberdeen Asset Management is a global asset manager with a broad range of investment capabilities. We are based in 26 countries with 39 offices, over 690 investment professionals and over 2,700 staff. Our assets under management were £299 billion as at 30 September 2017.

As a pure asset manager we are able to concentrate all our resources on our core investment management business. 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.

We always seek to put our clients' interests first in all that we do. When we face conflicts of interest in respect of our stewardship work, our approach is simply that we will always seek to act fully in clients' best interests, conscious that we are stewards of their assets.

Our investment processes strive to be simple and clear and we aim to seek out investments that display these qualities too. We focus on taking a long term view of our investments, with relatively lengthy average holding periods meaning that we actively consider matters of long-term value, such as governance and risk management, as a natural part of our philosophy and investment approach. Thus, 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. We do not regard matters of governance and long-term risk management as stand-alone factors 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.

We set out publicly our approach to governance and stewardship, which is based on global and local best practices. We seek to ensure that our voting reflects our close understanding of the companies in which we invest client funds; it is not an end in itself but a formal part of an ongoing dialogue with companies. We attend many company AGMs and EGMs to further our contact with, and understanding of, companies and their governance; in contrast to many investors, we do not regard this as an escalation of engagement but just a normal part of our contact with companies.

We do not seek headlines, simply well-run and efficient companies focused on long term value creation – though we are willing to be public in our concerns if we believe that this is necessary to preserve and enhance value for our clients.

As in previous years, this report aims to offer some insight into the extent and rigour of our engagement and voting activities.

AAM, London office

Stewardship across our different asset classes

Equities
For our active equity business, our bottom-up stock selection process is long-established and, with lengthy average holding periods, we actively consider matters of long-term value for both potential and held investments. We maintain close contact with the companies in which we invest and this means we can respond pragmatically to their individual needs and seek to consider what is in the best interests of the company and its shareholders at the relevant stage of its development.

We focus on company fundamentals and the material issues which may have a negative impact on the business. These issues can vary greatly between companies and also individual industries.

We have regular and ongoing dialogue with the management and boards of the companies in which we invest and this engagement is at the heart of our investment process. By maintaining a positive working relationship we find we can often help companies find positive ways forward, and educate management about the expectations of their shareholder base.

Fixed Income
Within fixed income, the material risks of an investment are examined across a spectrum of issues, including traditional financial metrics, governance issues, country- and industry-specific considerations, and environmental and social risks. These are all taken into consideration, using information from many different sources, before an investment decision is made on behalf of clients.

Our approach from an ESG perspective is to examine factors which have a potential, material impact on the credit risk of the underlying investment. We assess how they are managed and mitigated, as well as the opportunities they create for the issuer and therefore the investor. This includes factors such as remuneration, board structure, corruption, climate change, human rights and supply chain issues.

In addition to integrating the analysis of material, credit-impacting ESG factors into all issuer reviews, Aberdeen also offers clients a detailed comparative assessment and scoring of a broader range of ESG factors which can be customised to suit specific ESG requirements.

As with our equity holdings, we look to engage actively where we believe this can add value.

Alternatives
For indirect investments, our first step is to understand how managers integrate ESG considerations into their investment analysis and decision-making. Integrating ESG factors into this process and decision-making can provide additional insight into the quality of a company's management, its culture and risk profile as well as identifying opportunities for growth and improvement. It is therefore important not only for value protection but also for value creation.

As with the other asset classes, ultimately the attractiveness of any investment opportunity will be driven by a broad range of factors. In some cases ESG issues will have a limited impact on the potential risks or opportunities of an investment. However, particularly for less liquid private markets and our investments in less developed markets, these issues can be meaningful in our assessment. This means that we have made, and will make, decisions incorporating metrics other than just financial ones, including not progressing with an investment on ESG grounds even when on financial metrics alone we would have chosen to proceed.

Property
If both direct and indirect environmental and societal impacts are well managed, the portfolio risk of our property investments can be reduced, with higher rental growth and occupancy rates achieved. The consideration of ESG factors is integrated into each stage of our investment process – from allocation to selection and management.

Our approach is not just about saving carbon and energy. It's about managing our risks and increasingly operational efficiencies to the longer term benefit of building occupiers and ultimately our investors.

Multi asset
Our multi asset funds are built around a clear philosophy of diversification and utilising the team's expertise in managing the market risks of traditional and alternative assets. We are able to draw on the breadth of Aberdeen's investment capabilities, including ESG integration, to provide multi asset solutions to meet client needs.

Quantitative Investments
We ensure that our stewardship across voting and engagement is as robust as appropriate for these equity holdings. We take up opportunities for dialogue with the boards of investee companies and regularly monitor business performance, governance and risk matters, seeking to maintain and enhance value over time for our clients.

Active monitoring of investee companies

We maintain close contact with the companies in whose securities we actively invest client funds. This includes monitoring public disclosures and taking relevant opportunities to meet with senior 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 (including long-term factors often referred to as ESG) and governance. We use third party research to assist and challenge 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 relatively concentrated portfolios means that we can 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. Our dialogue at various levels of the companies in which we invest means that we can cross-reference our understanding of issues and the approach to them, and can sometimes identify situations where we believe there may be a disconnect between the board's approach and what is actually delivered in reality.

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 and where our clients have more significant exposures, and seek to identify appropriate times when intervention might be called for.

Monitoring and engagement meetings with companies:

Region	Equities – 12 months to 30 September 2017	Fixed Income – 12 months to 30 September 2017	Total
Asia ex-Japan	1,432	327	1,759
Japan	450	1	451
Emerging Markets ex-Asia	682	269	951
North America	823	19	842
Europe ex UK	619	30	649
UK	600	33	633
Total	**4,606**	**679**	**5,285**

Monitoring and engagement meetings

In context of number of active holdings and total equity and fixed income holdings (including passive and quantitative holdings).

UK	
Meetings with equity holdings	600
Meetings with bond holdings	33
Number of companies held active equities	150
Number of companies held fixed income	507
Total number of holdings	1,247

North America	
Meetings with equity holdings	823
Meetings with bond holdings	19
Number of companies held active equities	169
Number of companies held fixed income	1,093
Total number of holdings	1,757

Europe ex UK	
Meetings with equity holdings	619
Meetings with bond holdings	30
Number of companies held active equities	167
Number of companies held fixed income	552
Total number of holdings	972

Asia ex Japan	
Meetings with equity holdings	1,432
Meetings with bond holdings	327
Number of companies held active equities	522
Number of companies held fixed income	295
Total number of holdings	1,149

Japan	
Meetings with equity holdings	450
Meetings with bond holdings	1
Number of companies held active equities	78
Number of companies held fixed income	20
Total number of holdings	563

EM ex Asia	
Meetings with equity holdings	682
Meetings with bond holdings	269
Number of companies held active equities	184
Number of companies held fixed income	103
Total number of holdings	410

Global total	
Meetings with equity holdings	4,606
Meetings with bond holdings	679
Number of companies held active equities	1,270
Number of companies held fixed income	2,570
Total number of holdings	6,098

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. When 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 to companies directly 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 EGMs, 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.

During the year, we attended 116 shareholder meetings globally. In many of these meetings we find that we are the sole institutional investor present, and find that the board welcomes our attendance and participation.

Number of AGMs and EGMs attended: **116**

Much of our engagement in relation to equities holdings also supports our stewardship of fixed income investments – by encouraging enhanced governance and risk management at companies we help them to be more robust and to prosper for the long run. This long-term sustainability of the business benefits both the companies' shareholders and bond investors. We seek conservative balance sheets and do not endorse companies which seek to benefit one set of investors to the detriment of others. We also actively engage from the position of investors in bonds, encompassing matters specific to our interests as bondholders and also broader risk management and governance concerns. This is particularly needed in the case of bond investments issued by entities that are not public companies. Often we do so as part of formal or informal groupings of investors.

Engagement case studies

Key

Capital structure	Social	Risk management
Environmental	Fair treatment of investors	Ongoing
Remuneration	Governance	Complete
E Active Equity Holding	FI Fixed Income Exposure	EP Passive Equity Holding

BRF (Brazil) FI E

Our engagement with BRF about deforestation bore fruit during the year. Following our discussions with the company, it published information on sustainable sourcing policies for the first time. We see this as an important step in improving disclosure on a highly material long-term risk exposure. We also continued to engage regarding BRF's governance structure, including issues of board independence and succession planning.

China Mobile (Hong Kong) E

We continue to press the company to address the issue of its capital structure, and to consider more active refreshment of its board of directors. These efforts continue, but we welcomed the company's announcement of a special dividend to celebrate the 20th anniversary of its listing.

CSL (Australia) E

We welcomed moves by the company to revise its pay structures, incorporating return on invested capital metrics, reflecting concerns we have raised over an absence of meaningful hurdles in long-term incentives. We also welcomed the news that the company would not renew its share buyback programme. We had questioned the wisdom of these buybacks and urged the company actively to consider the risks associated with continuing with such a programme.

CVS Health (US) FI E

We once again engaged with long-term holding CVS Health on executive pay. We raised a number of concerns related to the nature of the performance metrics applied and their incentive effect, and with regard to the high level of long-term pay that is paid without any performance assessment being applied. We found this an encouraging discussion and have some confidence that structures may improve for 2018.

ExxonMobil (US) FI E

We had vigorous dialogue with the company over the year regarding its risk exposures, and most particularly in relation to its approach to climate change. While there have been some changes in the company's approach it still seemed to us to be defending a settled position that oil and gas will remain in high demand for the next several years rather than discussing scenarios and building a business with long-term resilience. We talked through the benefits of disclosure in line with the FSB's Task Force on Climate-related Financial Disclosures, in particular the strategic frame and the need for board ownership of the issues. During the year we welcomed two major steps by the company: the addition of a scientist with climate expertise to its board and an agreement that it will regularly report on climate change risks to the business, including positioning for carbon-constrained scenarios.

Grasim/Aditya Birla (India) E

Over the course of the year we discussed environmental impacts with both Grasim and its parent Aditya Birla. On a number of occasions we discussed these companies' efforts to meet more stringent discharge standards and to improve oversight of the environmental impacts of their operations. Water and discharge issues are a key risk exposure for the group and we have worked actively to assess the approach and encourage further progress. We have been heartened by the ongoing commitment to these issues. We are continuing our engagement to ensure that these companies make progress in reducing their environmental impacts and meet national standards for discharge and chemical effluents.

Imperial Brands (UK) FI E

We made clear our concerns when first faced with pay proposals from Imperial Brands, which would have involved a significant pay increase for management. While we were active investors and positively disposed to management we struggled to understand why this was necessary and were unconvinced that it was justified. In the face of growing investor discontent, the company eventually withdrew the proposal. We publicly welcomed this step and continue in dialogue with the company. We also encouraged the group to consider linking risk management to remuneration in order to improve accountability, and to produce a risk matrix demonstrating the materiality of its principal risks.

Indocement (Indonesia) E

We met with the company to discuss plans to mitigate its carbon footprint and improve energy efficiency. We were pleased by an improved focus on environmental matters and formally commended them for this, whilst encouraging the company to continue developing its approach. We recommended setting and disclosure of achievable targets and formal action plans in the sustainability report, and to link these targets to remuneration for the relevant risk owners. The publication of dedicated website disclosures on carbon reduction initiatives was in itself a major step forwards in the year, and we will continue to urge the company to add further transparency.

Lukoil (Russia) FI E

We pressed the company with regard to its climate change exposures, and environmental risks more generally. We urged them to consider building in a cost of carbon to their long-term investment planning, and to accelerate moves to eliminate flaring of gas across their extensive operational footprint. In particular, we encouraged the company to compare its approach not only with Russian rivals but with international peers, which have much more developed approaches in these areas. We also again discussed the company's record on leakages from pipelines, particularly in the remote Komi Republic, emphasising the need for ongoing efforts to avoid further environmental damage. And we asked them to consider a relevant board appointment to help ensure these issues are considered appropriately. We held separate dialogue encouraging the company to address the issue of 17% of its shares being held in treasury – making Lukoil one of its own largest shareholders. Subsequent to the year end, it announced it would cancel the bulk of these shares and make the rest available to fund employee options, an announcement that was well received by the market.

Microsoft (US) FI E

We engaged with the company on a range of topics including cyber security, data privacy and how Microsoft addresses its environmental impacts. We welcomed the group's holistic approach to risk management and integration of ESG considerations into its risk mitigation approach and business strategy. We discussed some of the steps that the group has taken to strengthen its cyber threat monitoring procedures and noted positively the additional resources dedicated to strengthening its monitoring and security. We also tested the company's procedures for responding to government requests, censorship of information and use of telemetry data.

Oracle (US) FI E

We continued with our now regular dialogue with the company, which has been dominated by the topic of compensation. We again pressed for changes in structure and quantum, which remains significant. While we recognised board concerns about changes having an impact on employee morale, we believed that more change was needed and yet again voted against the pay resolution. We were pleased to note when finally the company responded to our and other shareholders' comments and dramatically restructured and reduced executive pay.

Samsung Electronics (South Korea) E

We welcomed a number of developments at the company over the year. We had pressed for more active consideration of corporate restructuring, capital allocation and capital return. These discussions proved very positive, and the year saw several announcements of positive steps forward in these areas. We also urged the company to enhance its approach to risk management, not least by creating the role of chief risk officer. Again, we welcomed the news during this year that such an individual had been appointed.

Softbank (Japan) EP

We met with an independent member of the audit and supervisory board and discussed the ways in which the energy and vigour of the founder and CEO is harnessed and where appropriate constrained. We talked through key strategic decision-making and succession planning efforts. We pressed for board and committee refreshment, and welcome what has been delivered in this respect.

Teva (Israel) FI E

We raised the issue of board refreshment with the chair, and later in the year welcomed the replacement of four independent directors. We particularly welcomed the fact that three of the new appointees have global healthcare experience, significantly enhancing the board's expertise. We also sought to ensure that the company had available the broadest possible pool of candidates for CEO.

Unilever (Netherlands/UK) FI E

We supported the company in the face of a hostile bid from US rival Kraft-Heinz. In a meeting with the chair and CEO soon after this bid was revealed we discussed ways in which the company could make more clear its positive attributes and performance such that the market would more fully reflect its value, thus squeezing out the scope for a takeover. We have welcomed the subsequent acceleration of business change at the company and a sharpening of the culture that has come as a result.

Vodafone (UK) FI E

We spoke with a number of board members and with the leadership of the audit firm about PricewaterhouseCoopers also having the role of administrator for the defunct retailer Phones4U. Given that PwC as administrator was considering suing Vodafone and others for allegedly causing the failure of the retail business, we regarded this as a significant conflict of interest with their position as auditor. Working closely with other investors, we tried to convince PwC to take a different approach, and when this proved unsuccessful we reflected our ongoing disquiet in our vote on their reappointment as auditor.

Yum China (US) E

We engaged with Yum China on two issues. As part of an ongoing dialogue on themes of environmental impact and supply-chain management, we encouraged the company to focus on environmental and social risks, ensuring that the board and senior management have appropriate oversight of sustainability-related initiatives, and view ESG issues alongside traditional risks. We specifically asked Yum China to disclose and rank risks on a materiality matrix, while being clear on the materiality analysis process. We also recommended that it disclose mitigation plans as well as targets it hopes to achieve. Separately, we discussed the structure of pay at the company, sharing our views on appropriate key metrics for executive remuneration.

Engagement and Green Bonds

Alongside our broader engagement with issuers of fixed income securities, we met with more than 35 issuers of green bonds. While 'The Green Bond Principles' are the internationally recognised standard for green bonds, the fungible nature of money requires us to look beyond the external audit review and ourselves gain confidence that strong governance is in place and that top management truly buy in to a green finance philosophy. We bear the same credit risk whether we invest in a green or non-green bond from a company, so we never analyse green bonds in isolation from an assessment of the group's financial stability and longer term strategy.

The emergence of the green bond market has opened a new channel of communication for bond investors. It allows us easier access to management in order to talk about the group's wider strategy with regards to climate change and environmental impacts. We regularly use this opportunity and our internal green bond rating assessment is mainly based on this management conversation.

The financial sector issuance of green bonds has risen to 40% of green corporate issuance in 2017. This is an encouraging sign of support for the energy transition as this spreads green financing to smaller businesses. The longer term trend in the sector is for banks to identify the carbon risks they face when they lend money. By reducing environmental risks, they ultimately improve the quality of their assets which can lead in the long term to a lower cost of capital.

BNP (France) FI EP is one of the banks which we met twice in 2017 to discuss their green bond strategy as well as their wider environmental and sustainable commitment. A year ago, BNP committed to supporting the development of renewable energies by increasing its exposure to this sector from €9.3 billion in 2016 to €15 billion in 2020. The group has also divested its financing activities in oil and gas exploration and coal assets. The integration of their environmental strategy can be evidenced by the systematic carbon risk and opportunity assessment in their own credit ratings. We have consistently encouraged them in these positive directions and believe that their assets are, as a result, more resilient to climate change-related risks. We therefore rate the bank at our own highest green bond grade.

Escalation: shareholder resolutions

During the year, we proposed or co-proposed 38 shareholder resolutions in markets around the world, covering issues across the range of governance and risk management concerns. This important shareholder right is one that we use sparingly but are always willing to consider. We often find that when we highlight to a company that we are considering pressing forward our perspective in this formal way, we are better able to reach an agreement about a mutually acceptable way forwards that does not require the public step of proposing a resolution. Nevertheless, it is an important tool that we wield with care. Two examples of this action from the last year are:

Vale (Brazil) FI E

We have been highly active in engaging with Brazilian miner Vale, particularly since the tragedy at its Samarco joint venture with BHP Billiton. We have sought to encourage cultural change and structural improvements at the company. As part of this broader process, we decided to propose two new directors to the company's board, fully independent individuals who can bring a different perspective that is more responsive to the thinking of long-term responsible investors. While for technical reasons these individuals were not elected during the reporting year, we reproposed their elections subsequently and welcome the fact of their successful appointments to the board.

Accor (France) EP

We joined with a small group of other investors to propose a shareholder resolution at the AGM of the French hotels group, pressing for the company to abandon double voting rights for long-term shareholders, established under the so-called Florange law. With several sizeable shareholders already, we are concerned that the double voting rights could give one or more of these effective control of the company without their needing to pay a control premium. While the resolution gained majority support from shareholders, unfortunately it did not receive the super-majority needed to become effective.

Escalation: going public

As a general approach, we strongly prefer to keep the bulk of our stewardship activities private and between ourselves and the boards of the companies in which we invest. We believe that this helps maintain positive relations and the trust that enables honest and open dialogue, but more importantly that it helps preserve value by avoiding public disruption and uncertainty. Our experience is that it is much more positive in terms of long-term value for issues to be resolved and addressed in private; this is often the quicker route also. Some activities (such as proposing shareholder resolutions, discussed above) become public as a matter of course, and we are often supportive of companies in media interviews.

But there are occasions where we actively choose to go public on particular issues in order to gain extra leverage, particularly where the situation is already in the public domain. Two situations where we used the media to positive effect during the year were:

Infosys (India) E

In the face of a public dispute between the company and some of its founders, we lent Infosys our public support, while at the same time encouraging the company to consider a return of capital from its significant cash pile. As a significant minority shareholder, we had been aware of the allegations about governance failings for some time and had been working behind the scenes to separate fact from fiction. When this became a public dispute, we continued our work to engage with senior management, the board and founders to ensure minority shareholder interests continued to be protected and that matters were dealt with appropriately; we also spoke publicly so as to help to stabilise the situation in the face of the painfully public disagreements.

Convatec (UK) EP

Convatec was a newly listed company in the UK, the subject of an initial public offering after some years of private equity ownership; it was large enough to have joined the premier FTSE 100 group of the largest companies in the UK. Unfortunately despite having been prepared for the public markets and expected to join at this premier level, the company did not have a properly diverse board; most notably it included no female directors and none were proposed for appointment at the AGM. We felt this was unacceptable and not only chose to vote against the report and accounts on that basis (we were the only major investor to do so) but also made this decision public – to increase the pressure on the company to act and make clear that other companies also need to ensure that they have properly diverse boards. We welcome the fact that within 4 months of our public declaration at the time of the AGM, 3 female directors had joined the Convatec board.

Escalation: litigation

We are wary of litigation, recognising that it is a blunt tool for achieving effective change at companies, and one that is extremely expensive for long-term shareholders. But we are ready to use it as necessary to protect clients' interests, and we certainly seek to collect clients' fair share of any settlements achieved in class actions brought by other investors. In rare situations we are prepared to take a leading role in litigation and actively consider whether clients' interests may be best served by our participating in a class action, or litigating separately.

Petroleo Brasileiro (Brazil) EP

Among the successful litigation we were party to this year was that in relation to the accounting scandal at Petroleo Brasileiro. When we considered our options with respect to the Petrobras class action, we decided that pursuing a direct action put our clients in the best position to maximise recovery, particularly in light of historical securities fraud class action recoveries. We were pleased with the settlement we achieved for clients outside of the wider class action.

Key

Capital structure
Social
Risk management
Environmental
Fair treatment of investors
Ongoing
Remuneration
Governance
Complete
E Active Equity Holding
FI Fixed Income Exposure
EP Passive Equity Holding

Collective engagement

While we are always willing to act alone and to 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 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 continue to be members of a number of significant groupings of investment institutions, including those set out below. We work alongside these associations to assist us in responding to public policy debates as well as in some cases to provide collaborative vehicles for collective engagement activity. During the year we participated in collective engagements with investee companies through a number of these bodies, as well as on a more ad hoc basis. In most cases we do not make the collective nature of these engagements public. We have held active dialogue with regulators and investors in other markets to emphasise the value of collective engagement.

On an ongoing basis we consider further international organisations in which we might seek to participate that would assist us in delivering effective collective engagement globally. During the year we therefore joined Eumedion, an association of leading investment institutions in the Netherlands.

Sample collective engagement vehicles	Indicative activity in the year
AMEC (Brazilian shareholders association)	Policy setting, regulatory engagement, sharing of views on companies
Asian Corporate Governance Association	Regulatory engagement, collective engagement with companies
Assogestioni (Italian fund management association)	Co-proposing slates of directors, collective engagement with companies
Council of Institutional Investors (US)	Policy setting, regulatory engagement, engagement with companies
Eumedion (Dutch stewardship association)	Policy setting, regulatory engagement, collective engagement with companies
Investment Association (UK)	Policy setting, regulatory engagement, collective engagement with companies
Investor Forum (UK)	Collective engagement with companies

Sample collective engagement activities included:

Linde (Germany) FI E

We raised concerns with this German chemicals business in relation to the lack of a distinct voting process for shareholders to approve its potential merger with Praxair of the US. This reflects a fundamental philosophical approach in Germany that does not give shareholders the right to vote on major changes to companies. While we are supportive of the merger, and would welcome the opportunity to endorse it through a shareholder vote, we believe that there should be such a vote. As part of these efforts, we formally and publicly lent our weight to an attempt l ed by DSW, Germany's individual shareholder representative association, to put a shareholder resolution to this effect on the AGM agenda.

Snap (US)

Alongside other members of the Council of Institutional Investors, we wrote to the company prior to its IPO asking that it should not proceed with listing non-voting shares. Rather, we argued, i t should have a shareholding and governance structure allowing proper accountability to shareholders. Through CII and other investor representative groups, we have since been in active dialogue with the index providers urging them not to include non-voting shares in their standard indices.

Proposing board directors in Italy

We worked alongside the Italian fund management association, Assogestioni, to propose directors and statutory auditors at many of Italy's leading companies. Under the country's voto di lista mechanism, minority shareholders have the right to promote a slate of directors to protect their interests and enhance board independence and quality – particularly important in a market where boards tend to be dominated by representatives of major shareholders or shareholding blocks. With lengthy board mandates in the country, the right typically comes around at most once in every three years, which limits the number of companies involved in any one year. Nonetheless, among them were some significant businesses, such as: Assicurazioni Generali, Enel, ENI, Saipem, Telecom Italia, Poste Italiane and Saipem. In all but three of the cases in which we were involved at least one of our directors/statutory auditors was duly elected, helping to enhance the independence of Italian boards.

Furthermore, we worked to reinforce our efforts to enhance Italian boards through a very active engagement alongside other Assogestioni participants with a leading company in relation to the independence of its board and the role of non-executive directors. Following considerable collective efforts, we were content about the result at this company and the precedent that it sets for the market as a whole.

Bradesco (Brazil) E

We helped increase the independence of the fiscal council – a uniquely Brazilian governance structure that performs some of the duties of an audit committee – of Banco Bradesco by supporting the election of a truly independent member. We regard the fiscal council as playing a particularly important role in the banking sector and so were concerned about the apparent lack of independence of the membership overall. Our efforts involved engaging with the board of directors and extensively with other minority investors to promote the independent individual, whom we were delighted to see elected.

Worldpay (UK) FI EP

Through our membership of the Investor Forum, we took part in a collective engagement with Worldpay, in relation to its proposed takeover by Vantiv, a US rival. In particular we highlighted the need either for the so-called merger to offer shareholders a real premium for accepting the delisting of the UK entity or that a listing be maintained in the London market so that shareholders can continue to participate in the growth of the business. The engagement won the undertaking that there would indeed be a secondary listing of the combined entity in the UK.

Other investor groups in which we participate include:

- Alternative Investment Management Association
- Carbon Disclosure Project
- Emerging Market Traders Association
- Financial Services Council of Australia
- Fixed Income, Currencies and Commodities Markets Standards Board (FMSB)
- Hedge Fund Standards Board
- Institute of International Finance
- Institutional Money Market Funds Association
- International Corporate Governance Network
- Investment Management Association of Singapore
- Pensions and Lifetime Savings Association (UK)
- Principles for Responsible Investment
- Scottish Financial Enterprise
- Shanghai Securities Industry Association
- 30% Club (Australia, Hong Kong, Italy and UK)

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 AGM and EGM. 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. However, voting represents only a formality in 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 take research from a market-leading voting advice provider; for several markets, covering more than 70% of our equities holdings, we ask them to apply a template so that the recommendations we consider more closely match the Aberdeen approach and mindset. However, even with such a close matching to the Aberdeen mindset, we do not automatically follow template recommendations; rather where we have an active investment and in many other cases besides we actively consider each vote on our holdings. We regard the recommendations as one input, and in particular we apply judgement based on our understanding of the circumstances of the individual company and its state of development, and we feed in insights from our engagement activity. The result of this independence of thought and judgement was that at controversial shareholder meetings during the 2017 voting season Aberdeen voted 60.8% of AGMs and EGMs differently from the baseline recommendations of our proxy adviser.

We have active stocklending programmes. We actively consider recalling stock that is lent in order to vote with our clients' full voting weight, and did so on a number of occasions during the year. Where relevant and where they have asked us to, we let clients with their own lending programmes know when we believe it is particularly important to have all shares and so all votes at hand.

Proportion of controversial meetings in 2017 voting season where we voted differently from baseline recommendations of our proxy adviser – **60.8%**

The following tables give an overview of our voting activity over the year. In total we voted on over 50,000 resolutions at over 4,400 company meetings globally.

Region	No. of Meetings	No. of Resolutions	For management		Against management/ Withhold		Abstain		No vote[A]	
			No.	%	No.	%	No.	%	No.	%
Asia ex Japan	1,080	9,046	8,166	90.3	786	8.7	68	0.8	26	0.3
Japan	383	4,670	4,434	94.9	215	4.6	0	0.0	21	0.4
Emerging markets ex Asia	560	5,649	4,962	87.8	359	6.4	269	4.8	59	1.0
North America	948	11,199	8,752	78.1	2,350	21.0	22	0.2	75	0.7
Europe ex UK	613	8,576	6,157	71.8	987	11.5	16	0.2	1,416	16.5
UK	827	11,448	11,147	97.4	265	2.3	36	0.3	0	0.0

Resolution issue	No. of Resolutions	For		Against/Withhold		Abstain		No vote[A]	
		No.	%	No.	%	No.	%	No.	%
Board elections	25,441	22,052	86.7	2,415	9.5	237	0.9	737	2.9
Remuneration	4,301	2,699	62.8	1,418	33.0	43	1.0	141	3.3
Capital structure	5,225	4,662	89.2	508	9.7	8	0.2	47	0.9
Anti-takeover measures	634	584	92.1	46	7.3	0	0.0	4	0.6
Takeover/merger	1,304	1,173	90.0	116	8.9	7	0.5	8	0.6
Routine/other business	11,588	10,456	90.2	514	4.4	59	0.5	559	4.8

[A] Do not vote decisions are actively taken for a number of reasons, predominantly as follows:
1. In so-called 'blocking' markets or cases involving registered shares, where voting would interfere with our freedom to trade
2. In some limited cases where we actively select one of a range of voting options and technically choose Do not vote for the options we do not select#

More detail on our voting activity can be found on our website, where we disclose our full voting record monthly, one quarter in arrears (see aberdeen-asset.com/aam.nsf/AboutUs/stewardshipdelivery). We are transparent to our clients on our voting decisions and the reasoning behind them.

AAM, Sydney

Shareholder-proposed resolutions	No. of Resolutions	For		Against/Withhold		Abstain		No vote[A]	
		No.	%	No.	%	No.	%	No.	%
Shareholder proposals	1,448	787	54.4	507	35.0	56	3.9	98	6.8

While typically bondholders do not enjoy voting rights, there are certain circumstances (for example where there is some degree of distress) where bondholder meetings occur. Some of these are purely for informational purposes and so do not require a vote, but where there is a significant voting decision to be made we will vote as relevant. During the year we voted as follows:

Preferred/Bondholder AGM/EGMs	No. of Resolutions	For		Against/Withhold		Abstain		No vote[A]	
		No.	%	No.	%	No.	%	No.	%
Preferred/Bondholder	156	147	94.2	5	3.2	1	0.6	3	1.9

Several bondholder meetings are called for formal or informational reasons only, and the resolutions are not substantive.

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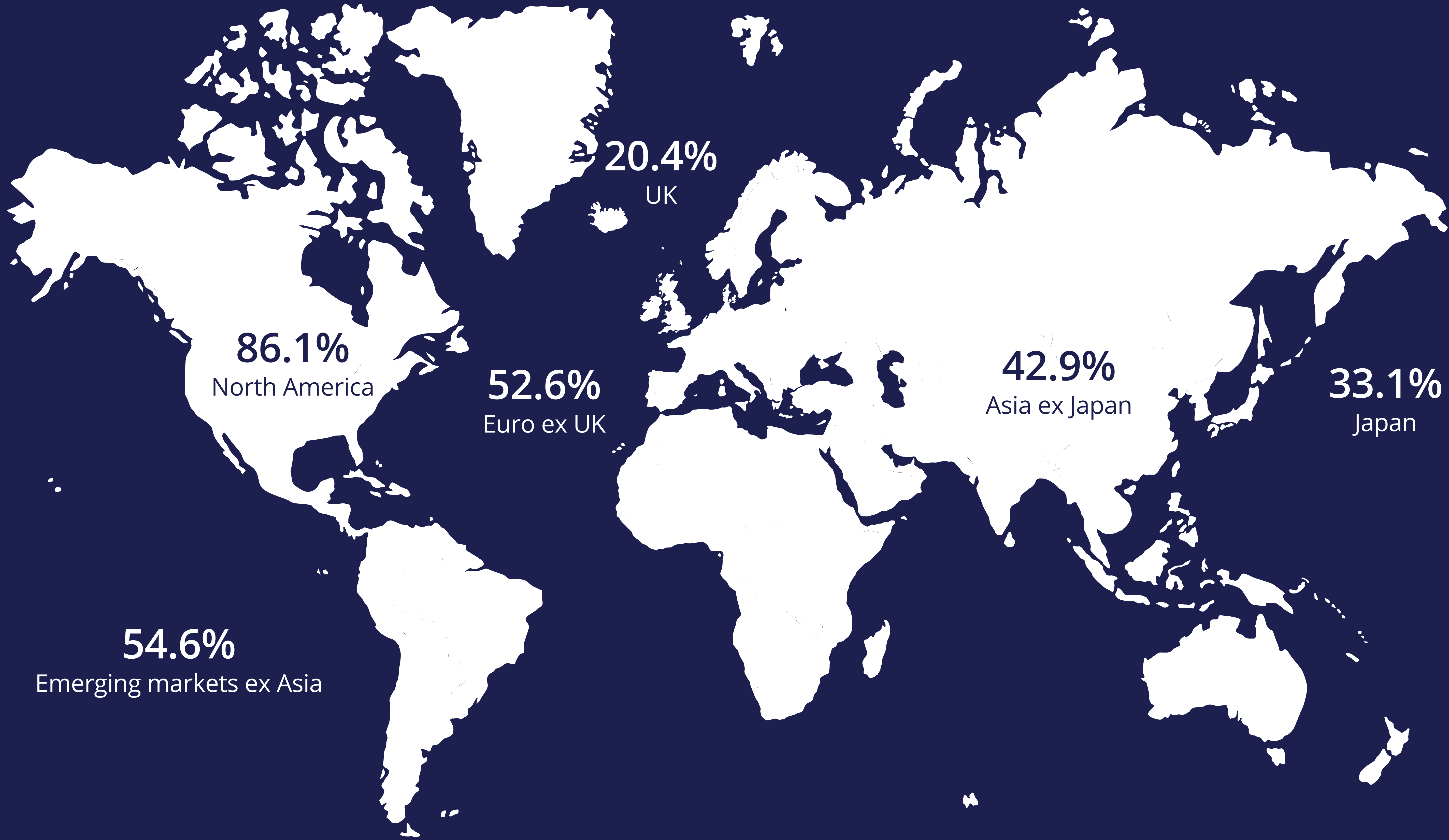
Overall record of votes against

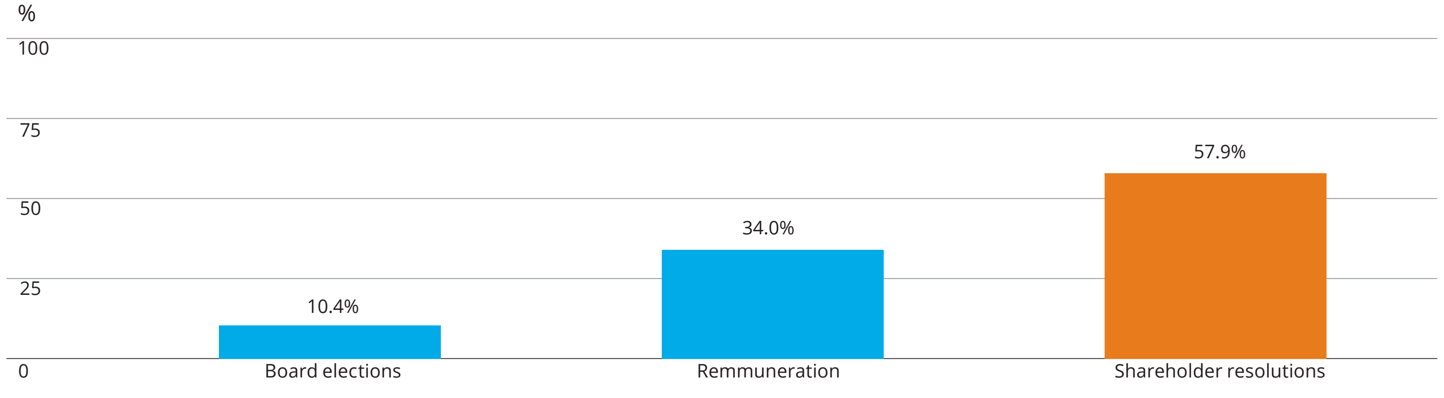
% of meetings where Aberdeen voted at
least one resolution against management

48.3%
Global total

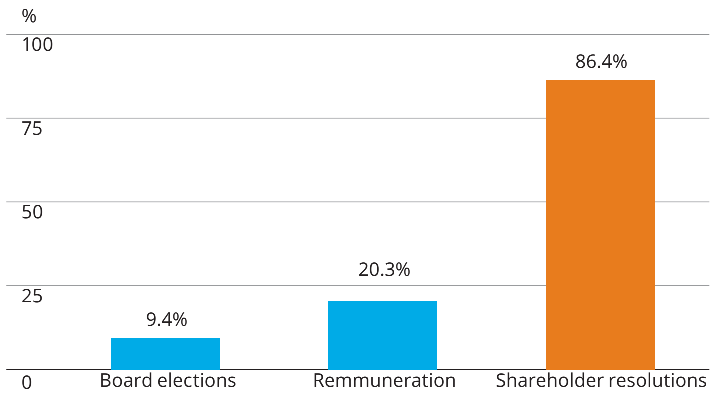


Regional statistics on key voting issues

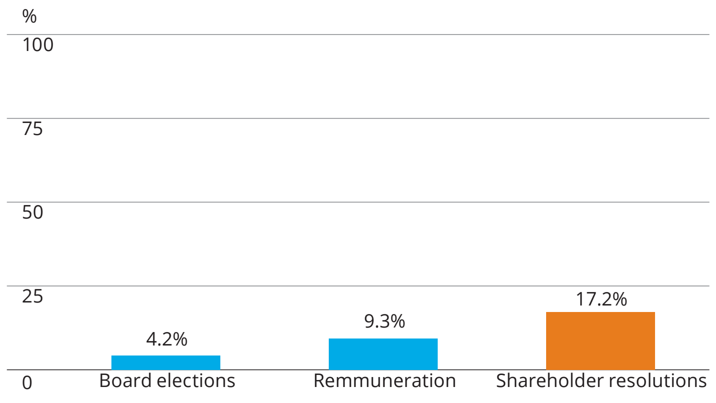
Global total
Total number of meetings: 4,411
Total number of resolutions: 50,588



Asia ex Japan
Total number of meetings: 1,080
Total number of resolutions: 9,046

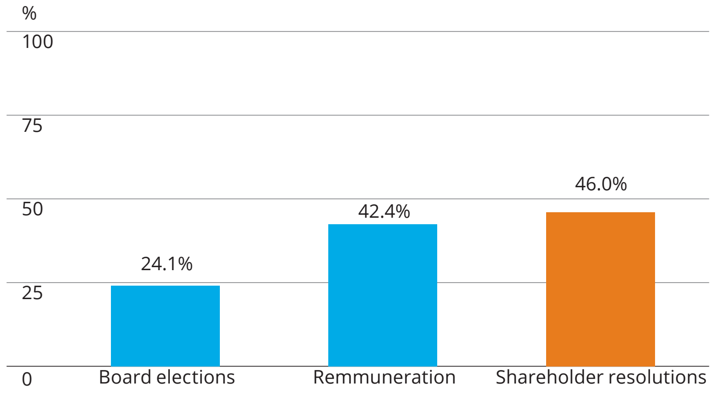


Japan
Total number of meetings: 383
Total number of resolutions: 4,670

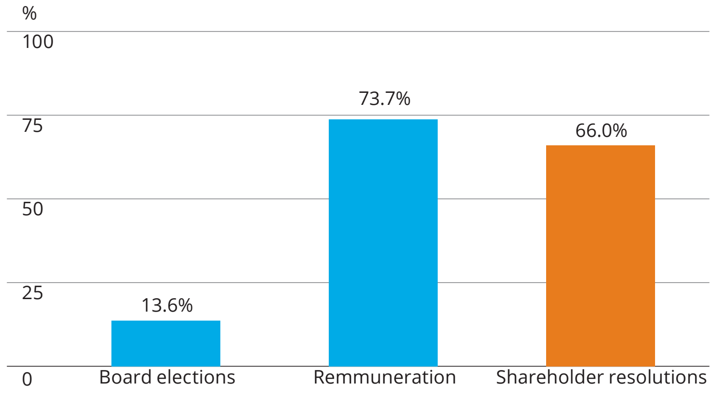


Key
- Votes contrary to management
- Votes supporting shareholder resolutions

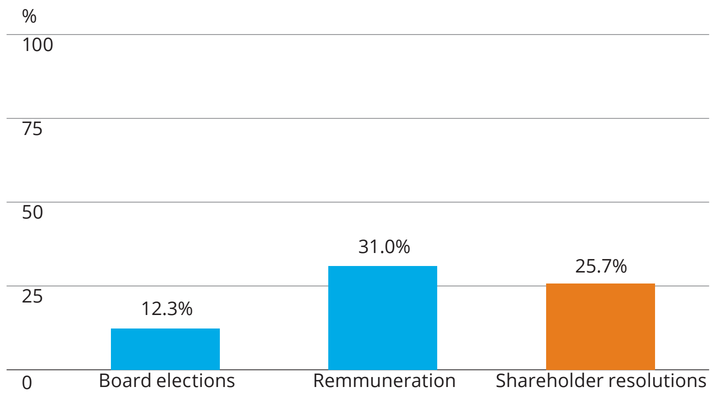
Emerging Markets ex Asia
Total number of meetings: 560
Total number of resolutions: 5,649



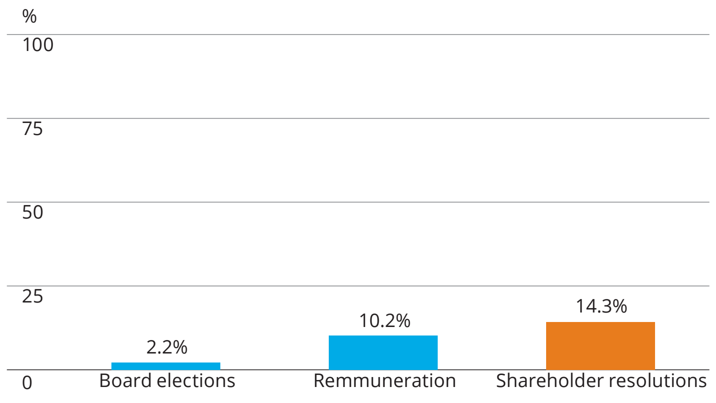
North America
Total number of meetings: 948
Total number of resolutions: 11,199



Europe ex UK
Total number of meetings: 613
Total number of resolutions: 8,576



UK
Total number of meetings: 827
Total number of resolutions: 11,448



Key
- Votes contrary to management
- Votes supporting shareholder resolutions

Engagement on matters of public policy

We play an active part in policy debates and discussions, seeking to raise standards across markets because we believe that this will add value effectively for our 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.

During the year, Aberdeen was delighted to become a founding member of the Investor Advisory Group for the Sustainability Accounting Standards Board. Through this group, of mostly North American investors, we are promoting the use of SASB standards for ESG reporting by companies – helping them focus on the key business sustainability issues that are material to their sector. We hope thereby to encourage higher quality reporting by companies, particularly in the US.

Regulatory advisory and other similar bodies on which Aberdeen staff sat as formal members during the year included:

Investors in Financial Reporting (IASB programme)	member
Investor Advisory Group for SASB (Sustainability Accounting Standards Board)	founding member
International Advisory Panel, Monetary Authority of Singapore	member
Audit Technical Advisory Group, Financial Reporting Council (UK)	member
Capital Markets Advisory Committee (main formal investor input to IASB)	member
Institutional Investor Council Malaysia (IIC)	member
Listing Authority Advisory Panel (UK)	member
Listings Appeals Committee, Singapore Exchange	member
Singapore Stewardship Principles (SSP) for Responsible Investors Working Group	member
The Takeover Panel (UK)	member

The following are a sample of our activities this year in the area of public policy:

Voting rights and inclusion in indices (global)
We helped foster an active debate on the inclusion of non-voting shares in market indices, working closely with investor representative bodies in the US and UK among other markets. As well as making clear our opposition to the inclusion of non-voting shares in market indices we sought to create a broader discussion that recognises issues with the market being exploited more generally through the use of dual class shares with differential voting rights. Our proposal is that there should be a broader voting right-weighted approach to indices – using the analogy of free float indices. As well as contributing to investor representative association commentary, we responded along these lines to all three of the major index providers, FTSE Russell, MSCI and S&P Dow Jones.

We also continued to work on the associated issue of dual class shares, actively and publicly seeking to discourage the possibility of companies with such differential shareholder rights being allowed to come to the market. Our particular focus was on Hong Kong and Singapore, where the authorities were considering relaxing restrictions in this regard.

Financial Stability Board climate change disclosure proposals (global)
We submitted a formal response to the consultation by the FSB's Task Force on Climate-related Financial Disclosures. This sets out a framework for all companies to discuss the strategic implications for their business of climate change impacts, and we regard it as a helpful step to move climate-related issues from narrow statistical disclosures to a board-level concern. We thus welcomed the TCFD proposals and made some specific comments to reinforce the most important aspects of the recommendations. We have also spoken in public forums to reinforce our support for this endeavour, not least as we believe broad support will be necessary to generate political and regulatory support beyond the FSB's narrow financial sector remit. And we are working to encourage individual companies to adhere to these key reporting standards.

Auditor reporting (US)
We worked actively to support the introduction of auditor reports in the US. These reports would reflect standards already adopted elsewhere in the world, and we have strongly supported progress towards the US following the global lead. We have supported the development of standards in this regard by the Public Company Accounting Oversight Board (PCAOB) – the audit standard-setter attached to the US's Securities and Exchange Commission – and maintained dialogue over years with the PCAOB, at both staff and board levels, throughout the process of adoption. We also formally wrote to the SEC to urge that it adopt those proposals, which it has now done. We welcome this step as we believe this marks a key opportunity to emphasise the key areas of judgement in reporting, which should enhance standards over time.

Collaboration with Sustainable Accounting Standards Board (global)
We became a founding member of the Investor Advisory group (IAG) at the US-based Sustainable Accounting Standards Board (SASB), which was established to promote transparency and consistency among companies on ESG related information. SASB has forged a framework to help companies know what information to publish, on a sector-by-sector basis and focusing on those issues that are most material. We will continue to participate in this effort, in particular by encouraging companies we hold to report according to the framework.

Novo Mercado reforms (Brazil)
We continued to engage to encourage support for better governance standards on the Novo Mercado enhanced listing segment as part of the reforms being undertaken by the stock exchange. We worked closely with the regulators and with other investors, and most specifically with listed companies to promote the reforms. As initial proposals were not welcomed by the corporate sector, we wrote to around 100 investee companies to encourage their support for improvements to Novo Mercado standards. We believe we were the only investor to have taken this step and that our letters exerted a positive influence, and played a part in ensuring significant improvements were in fact delivered.

EU sustainable investment strategy (Europe)
We responded to a consultation from the European High Level Experts Group on Sustainable Finance, which is seeking to develop a strategy for a more sustainable financal sector in Europe. The main focus of their work is to encourage more investment in environmentally sustainable assets and we shared our experience in investing in green bonds and other green assets, highlighting ways in which the system can build more confidence in such assets. We also strongly supported the adoption of the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures into the EU regime, and encouraged the embedding of the TCFD recommendations into ratings agency and banking standards.

Transparency and disclosure (Japan)
We continued to work with the Japanese authorities to enhance the disclosure regime and to encourage a more open culture among public companies. We met with Japan's Financial Services Agency to discuss the disclosure regime and to press for enhanced regulation and practice in the area. We highlighted our views on quarterly reporting, indicating that semi-annual is usually frequent enough, especially where there is an effective system whereby material changes in circumstances are disclosed to the market promptly; it is important that companies complete the reporting process efficiently following the close of the period. We noted the need for improved risk reporting and of broader ESG management, and undertook to share some lessons from other markets which have delivered improvements in this respect. And we again raised the question of the timeliness of reporting and the need to have relevant disclosures ahead of the AGM – comments that we also made to the Tokyo Stock Exchange in response to a consultation on earnings disclosure. We highlighted the danger of their proposals that they might mean that detailed financial information would not be available until after the AGM, meaning investors would not have a proper basis for voting decisions. We also continued to recommend more flexibility in the timing of AGMs, which are too concentrated in Japan, a situation that in itself reduces the scope for judgement.

Takeover regime: letter to parliament (Netherlands)
We wrote to the economic affairs committee of the Dutch parliament to highlight our concerns regarding possible moves by the government to tighten the takeover regime in the Netherlands. The economics minister had written to parliament suggesting some possible ways in which takeovers of Dutch companies could be made more difficult, with the government clearly favouring a system whereby bids are frozen for a year, during which shareholders' rights to influence board membership might also be suspended. Ahead of a parliamentary debate on these issues we wrote to make clear our concerns about this: while we often oppose takeovers we do believe there is a value in the disciplining force that they exert, and we noted that any further restrictions on takeovers might have a negative impact on investment in the Netherlands.

Disclosure and governance standards (Mexico)
We engaged with Mexico's banking and securities regulator (CNBV) on improving the timeliness and completeness of disclosure of information by companies ahead of AGMs, and about limitations on Mexican companies' by-laws which restrict ownership of shareholders beyond a certain threshold, among other subjects. In addition, alongside other investors we publicly pressed Mexican regulators to improve corporate governance practices in the market. The key issues we raised included the timing of disclosure at AGMs and bylaw clauses that in effect restrict standard shareholder rights. We also continued to engage with Mexican companies individually on these points. We saw some encouraging improvements, most notably some noticeable improvements in the quality and availability of disclosures.

Pay ratio disclosure (US)
We joined with dozens of other investors in contacting the US Securities and Exchange Commission to urge that it should not reverse its intent to require pay ratio reporting from public companies. Disclosure of the ratio of the CEO's pay to that of the average worker was a requirement of the Dodd-Frank Act, which was enacted in 2010; however, the SEC is only now finalising the relevant rules. We wrote the investor letter in response to reports that the SEC was stepping back from plans to implement the rule, and suggestions that clear voices in support were needed in order for it to survive. We believe that publication of such a ratio would help exert positive constraints on executive pay in the US.

Development of stewardship codes (global)
We continued in our efforts to support the development of stewardship codes around the world. We regard this as helpful standard-setting that should encourage more institutions to operate as good stewards of the companies in which they invest, so enhancing performance and returns for markets as a whole. Among the markets where we have had direct involvement in the development or revision of stewardship codes during this year are: Australia, Brazil, the Netherlands and Singapore.

Revision of corporate governance codes (global)
We provide ongoing input to the development and revision of corporate governance codes around the world. We seek to enhance dialogue between companies, their boards, and shareholders, and we seek to establish higher standards for the governance and oversight of public companies. The markets in which we were particularly active in this respect this year included: Germany, the Philippines, Thailand, Turkey, and the UK.

Accountability to our clients, and publicly

We acknowledge that our stewardship activities are on behalf of our clients and their end beneficiaries, and that we have a clear obligation to be as transparent about our actions as is appropriate in all the circumstances. We are constantly seeking to enhance our reporting on stewardship matters, both to our clients and in the public arena. This year, as previously, we have enhanced our reporting, and continue to look for ways to make further improvements. We recognise that this is an evolving area and we welcome input so that we can respond as fully as possible to developing expectations.

We acknowledge that this public report, which offers a window into some of our activities in the area of stewardship, is a reflection of our public accountability in taking forward active involvement in the companies in which we invest client funds. We recognise this public accountability not least because of the many thousands of individuals who are the underlying beneficiaries of our clients. We have identified a few individual companies where our involvement is already in the public domain; we remain firmly of the view that we should not name many companies publicly in our stewardship reporting because that might damage our relationship with those companies and hinder our ability to encourage prompt and effective change, both at the named companies and elsewhere.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