

NFU Mutual and the UK Stewardship Code

The UK Stewardship Code has been introduced by the Financial Reporting Council (FRC) with the aim of enhancing the engagement between institutional investors and companies, thereby improving governance in those companies and enhancing shareholder value.

The National Farmers Union Mutual Insurance Society Ltd. (NFU Mutual) is an institutional shareholder in respect of the Group's insurance funds and an agent in respect of funds managed via NFU Mutual Investment Services Ltd. and NFU Mutual Unit Managers Ltd. For consistency however the following treats the Group as an 'agent' with the term 'client' interpreted as internal or external as appropriate.

NFU Mutual is fully committed and supports the principles of Stewardship Code and complies with them in the following way.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The underlying basis for reviewing the governance of a company will be compliance with the principles and provisions of the UK Corporate Governance Code (UK companies), local corporate governance principles (international companies) and the company's approach to corporate social responsibility.

The Investment Department of NFU Mutual is responsible for continuously monitoring the companies and holdings to ensure that they remain appropriate and suitable for investment. It is however our belief that responsible management are appointed by the NFU Mutual Board whose responsibility it is to manage the business in the interests of policyholders.

Voting is carried out on our behalf by a company independent of NFU Mutual called Institutional Shareholder Services (ISS), who carry out extensive research on each company invested in and provide recommendations on how to vote on each resolution. NFU Mutual generally vote in line with the recommendations made by ISS, any exceptions to this will be noted in the periodic report produced for the NFU Mutual Board on Shareholder Engagement and Voting Policy.

Issues addressed include the following;

Monitoring Financial Performance

Procedure

Investments will be monitored by our in-house team of Fund Managers on an ongoing basis in respect of their achieved results and prospects. This monitoring, in addition to analysis of company financial reports and statements, may involve indirect sources such as stockbrokers,

independent analysis, press comment etc., as well as direct contact with the company. The latter may range from general update meetings with senior executives to meetings on specific issues at the request of either side.

Records

Financial information is recorded on a standardised basis for comparative purposes. File notes are kept in respect of meetings with company executives and/or advisers.

Monitoring Non-financial Issues

Procedure

The published reports and statements will be scrutinised for evidence of compliance with the Combined Code on Corporate Governance and the policy in respect of social, ethical and environmental issues. Significant areas will be followed up as detailed below with regards to Engagement Criteria.

Records

We retain the published reports and Statements.

Engagement Criteria

Procedure

Direct contact with Board Members and/or senior management will involve correspondence, update meetings or meetings on specific issues of concern to and at the request of either party.

In practice, unless the aggregate holding (via internal and external clients) is significant, intervention in an investee company with respect to issues of concern will initially be raised via the ABI (Association of British Insurers) thus obtaining a consensus view representing a larger holding. Typical issues would include an unjustifiable failure to comply with the Combined Code, inappropriate remuneration levels/incentive or severance packages, the company's approach to social, ethical and environmental issues.

In the last resort, after all previous dialogue has failed, to elicit a constructive response, direct action could result. Depending on the circumstances, action could range from expressing concern through the company's advisers either separately or jointly with other institutions through additional meetings with management/chairperson/independent director (s), to submitting resolutions at shareholders meetings and/or requesting an EGM (Extraordinary General Meeting) to adjust the composition of the board. It is likely that such action would only be effective in most circumstances if carried out in conjunction with other concerned shareholders.

Records

File notes and all correspondence are retained.

Conflicts of Interest

Procedure

Where a potential conflict of interest arises with an external client, the position will be referred to the NFU Mutual Board and will endeavour to resolve such issues in the client's favour.

Records

File notes and copies of all correspondence are retained.

Voting Policy

The NFU Mutual currently votes on all eligible stock at every meeting, apart from those in the few remaining markets that still operate share blocking policies, or require Power of Attorney.

Our default instruction gives implied consent for ISS to vote on our behalf in line with their recommendation; however we do retain the option of entering our own votes should we see fit.

Wherever possible, we monitor each meeting to ensure that we are comfortable with the voting recommendations made by ISS.

Records

Detailed records of all meetings where a vote was exercised will be kept showing how votes were cast. These records are available via the ISS website and hard copy printouts retained. An annual report detailing the voting activity will be produced for the NFU Mutual Board.

Evaluation

Procedure

The Engagement and Voting Policy along with the associated detailed procedures, as well as any specific cases of direct engagement are reviewed on an annual basis to evaluate effectiveness.

Records

A report on the review along with any proposed updates is made to the NFU Mutual Board.

As a general rule we will endeavour to deal privately with companies in expressing or addressing concerns to avoid making our difference public. The overriding principle will be to act in the considered best interest of 'ultimate shareholder' clients.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

In all cases where a potential conflict of interest arises with an external client the position will be referred to the NFU Mutual Board and every effort will be made to resolve such issues in the client's favour.

Company voting policy states that in order to avoid any potential conflict of interest, we will abstain from a shareholder vote in relation to direct

investment in another of the Group's affiliated companies and in circumstances in which the interests of clients diverge.

NFU Mutual's Investment Department comply with the following conflicts of interest policy;

Potential conflicts of interest can arise in fund management operations.

It is a requirement that all reasonable steps are taken to identify conflicts of interest that may arise either between clients and/or between clients and the fund manager. The following sets out the policies of the NFU Mutual Group to manage and mitigate any potential conflicts and risks of material damage to ensure fair treatment of all clients.

Areas where conflicts may arise include:

- Inducements
- Personal Account Dealing
- Remuneration
- Insider Information
- Order Allocation

Inducements:

The NFU Mutual Group does not accept any inducements in the form of services or financial payments from institutions with which it trades. Any payments to such institutions are only in respect of executed trades or relevant services. Details of commissions and dealing volumes are recorded and disclosed.

The detailed policy and procedures in respect of potential inducements (gifts or hospitality) are dealt with in accordance with the NFU Mutual's Anti-Bribery and Corruption Policy. Details of any potential inducement are recorded in the Gifts and Hospitality Register.

Personal Account Dealing:

A detailed policy and procedures in respect of Personal Account Dealing are in place within the Investment Department of NFU Mutual. Those personal trades that are allowed under the policy and procedures require prior authorisation and details are recorded in the Personal Account Dealing file.

Remuneration:

The NFU Mutual Group does not receive any remuneration for investment services outside the fees detailed in client agreements.

No member of the investment management team receives remuneration from the outcome of any investment service provided to any client or of any transaction carried out on behalf of any client that is distinct from the client's interest in that outcome.

Remuneration of the fund managers within the NFU Mutual Group includes an incentive scheme based on the performance of funds under

management. It is ensured that remuneration remains consistent with the interests of clients generally by not linking to any specific trade or client and measuring relevant performance on a risk adjusted basis.

Insider Information:

It is a criminal offence to trade in a financial security when privy to insider information in relation to that security or to pass that information to a third party. As a financial institution with significant funds under management and as part of its wider security industry obligations the NFU Mutual Group is on occasion, privy to confidential and hence insider information. The NFU Mutual's Market Abuse Policy should be followed in all such instances. Although such instances are kept to a minimum, when they do arise the information cannot be passed on to third parties including clients and no trades in the securities concerned can take place on behalf of internal or client funds. This situation will persist until such times as the information ceases to be relevant or becomes public knowledge. In the Investment Department of NFU Mutual, regular monitoring of all inside information and dealing transactions is conducted by the Middle Office, for the purpose of providing assurance that the activities of Investment Department comply with the NFU Mutual's Market Abuse Policy.

Order Allocation Policy:

Details of all placed orders, including intended and ultimate allocation, are recorded in the investment manager's dealing record book. All orders are pre-allocated at the time they are placed and ultimate allocations will reflect this. It is not permitted to reallocate orders other than in the case of errors. In such cases the details and reason for the reallocation will be recorded in the Investment Department Breaches & Errors Log.

Orders at the same price and via the same counterparty will be dealt with sequentially. Where there are outstanding orders in the same security at different prices, ultimate allocation will reflect the pre-allocation intention of each placed order.

Where client orders are aggregated either with other client orders and/or with internal funds, this will only be done if it is reasonable to consider that a better result is likely to be achieved than if the aggregated orders were placed separately. Where it is clear that smaller orders are likely to achieve the best result for clients, orders will be placed individually or aggregations will be limited to the optimum size.

While in the appropriate circumstances, aggregated orders can normally be expected to achieve a better result; there may be occasions when the actual outcome of aggregation produces a less advantageous result.

Aggregated orders will be pre-allocated and final allocations will follow accordingly. As referred to above re-allocations will not be permitted.

Allocations of partially completed orders will be dealt with as follows. Pre-allocations to clients (in this instance clients refers to the Retirement Benefit Pension scheme and the OEICs), will be filled in priority to other funds, unless it is clear that the order would not have been completed even to the partial amount without aggregation. In such cases, orders may be allocated proportionately with reference to the pre-allocation.

Where such proportional allocation would produce uneconomically small amounts, clients will be favoured when determining practical allocations. In certain circumstances, however, the most appropriate allocation to a client involved in an uncompleted order may be a nil allocation (e.g. even if the entire amount was allocated to the client it would still result in an uneconomic initial holding).

Actual allocation of an uncompleted aggregated order will depend on the particular circumstances and be the result of a judgement taking into account the above together with factors such as recent trades in the relevant security or existing holdings. Where a client fund is not allocated in full, the criteria for the actual allocation will be recorded in the dealing record book.

A record of each order that was not carried out by the broker should be made in each respective dealing book together with the reason why the order was not carried out by the stockbroker. For example the stock could not be obtained or sold at the price requested, or the stock is illiquid and sufficient volume is not available.

Principle 3

Institutional investors should monitor their investee companies.

As stated under Principle 1, ISS carry out extensive research for NFU Mutual on each company invested in and provide recommendations on how to vote on each resolution. The voting records and recommendations are maintained by ISS.

NFU Mutual's Investment Department also monitor corporate developments through media channels such as press releases and company announcements. They meet with management of those companies that NFU Mutual invests in, as well as with other independent third parties such as stockbrokers; in order to build a firm understanding of the current financial and governance positions of those companies.

NFU Mutual's Investment Department may wish to be made an insider; however they should not be made an insider without the prior agreement of a fund manager. This agreement can be either verbal or written but it should be clear, unambiguous and made prior to any conversation about inside information.

Principle 1 fully explains the group's approach to monitoring which includes an overview of this approach, an indication of the issues considered most important and how we evaluate its effectiveness. We hold regular meetings with companies to discuss specific results or events as well as more informal dialogue incorporating site visits and other research initiatives. These meetings may cover a range of topics from corporate strategy, risk management, corporate governance, board composition and remuneration issues. Ultimately this dialogue aims to cover everything which is relevant to the decision on whether or not to invest in the company in question.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

Engagement criteria and process for protecting and enhancing shareholder value:

- (i) Direct contact with board members and/or senior management will involve correspondence, updating meetings or meetings on specific issues of concern to either party and at the request of either party.
- (ii) In practice unless the aggregate holding (via internal and external clients) is significant, intervention in an investee company with respect to issues of concern will initially be raised with the investee company and thereafter potentially with the ABI, thus obtaining a consensus view representing a larger holding. Typical issues would include an unjustifiable failure to comply with the UK Corporate Governance Code; inappropriate remuneration levels/incentive packages/severance packages; the company's approach to social, ethical and environmental issues.
- (iii) As a last resort, after all previous dialogue has failed to elicit a constructive response, direct action could result. Depending on the circumstances, action could range from expressing concern through the company's advisers either separately or jointly with other institutions, through additional meetings with management/Chairman/independent director(s), to submitting resolutions at shareholders meetings and/or requisitioning an extra-ordinary general meeting to adjust the make-up of the board. It is likely that such action would only be effective in most circumstances if carried out in conjunction with other concerned shareholders.

As a general rule we will endeavour to deal privately with companies initially, adopting other measures only if this method proves unsuccessful.

The procedures documented in Principle 1 – Engagement Criteria, explains the circumstances in which we would escalate our engagement with a company.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

As stated under Principle 4 under the engagement criteria and process, there are situations and events where NFU Mutual would consider acting collectively for the purpose of protecting and enhancing shareholder value.

The procedures documented in Principle 1 – Engagement Criteria, describes the circumstances in which we would consider engaging collectively with other institutions.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

Voting Policy:

The overriding principle will be to act in the considered best interest of 'ultimate shareholder' clients.

(i) NFU Mutual votes on all eligible stock at all UK meetings and in all other countries where we own equities with the following exceptions; those countries operating share blocking policies and those requiring Power of Attorney. In these instances voting is not conducted in respect of the stock held.

(ii) Our default instruction gives implied consent for ISS to vote on our behalf in line with their recommendation, but we do retain the option of entering our own votes as we see fit.

The management team considers the following factors in reaching their voting decision and, where appropriate, in reaching any recommendations:

- the likely consequences of any decision in the long term,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct,

(iii) When we do not vote in line with ISS recommendations, a note is kept regarding this and the underlying reasons.

Detailed records of all the meetings where a vote was exercised will be kept showing how votes were cast. These records are available via the ISS website and hard copy printouts retained.

Whilst records of our voting instructions are maintained, we do not publicly disclose our voting activity. On specific requests, and if appropriate to do so, we can provide records.

An annual report detailing the voting activity is produced for the Board.

This provides a brief analysis of:

- Number of meetings voted
- Number of resolutions voted
- Times voted against management

Further information is given on the trend in voting pattern particularly where we have voted against management and in this instance a summary of the reasoning is provided.

In the event that we have taken the decision not to support a management proposal/resolution at a shareholder meeting, we will use best endeavours to discuss this with the company beforehand and explain the reasons as it is recognised that this is good practice. We also use reasonable endeavours to do so in respect of abstentions.

Stock lending is undertaken to maximise the revenue generated by investments, it is not NFU Mutual's standard policy to recall lent stock for voting purposes, and however, the right to do so is always reserved. Strict procedures and controls are in place regarding criteria for whom and on what terms stock can be lent.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

NFU Mutual is committed to accountability to our clients on stewardship and voting. A report is produced for the Board on Shareholder Engagement and Voting Policy on an annual basis. This board paper gives details on the volume of meetings and resolutions voted on and also evidences how often we voted against management with reasons why, for example the election of directors and the issuance of equity.

Whilst reports are produced for board and clients, we do not currently disclose details of our voting activity to the public.

Periodically and at the request of the Board, reviews by external consultants are undertaken. These reviews cover all operational elements of the Investment Department with voting and engagement forming an essential part of the scope in relation to the code. NFU Mutual does not obtain any further internal opinion on its engagement and voting processes

as it gains assurance from the independent external reviews it is subjected to.

For a copy of the most recent version of this report or for further information regarding NFU Mutual and stewardship please contact;

warren_lillicrapp@nfumutual.co.uk

Detailed records on how NFU Mutual have voted are held by ISS, if you would like to be sent details of the current voting record for NFU Mutual, please contact the above email address with details of the specific ad hoc request.