AIG Asset Management (Europe) Limited UK

Stewardship Code Statement

August 2020

Introduction

Stewardship is defined as the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Stewardship activities include monitoring assets and service providers, engaging issuers and holding them to account on material issues, and publicly reporting on the outcomes of these activities. These activities support the functioning of the UK's financial markets by enhancing their quality and integrity.

Background

The Financial Reporting Council ("FRC"), an independent regulator whose mission is to promote transparency and integrity in business sets the UK Corporate Governance and UK Stewardship Codes and also monitors and oversees UK standards for financial reporting, accounting and auditing.

The UK Stewardship Code (the Code), first published in 2010 after the FRC's remit was extended, aimed to:

- develop and set the benchmark in the UK to encourage best practice stewardship by institutional investors of UK-listed companies, in respect of meeting their ownership obligations of holdings.
- improve long-term returns to beneficiaries by enhancing the quantity and quality of engagement between institutional investors and companies.

Since the last revision of the Code in 2012, the UK's overall high standards of corporate governance have continued to attract investment. However, there have been examples of poor governance practice, poor decision-making and underperformance that have contributed to corporate failure.

In January 2019, the FRC launched a consultation on proposed amendments to the 2012 Code and the FRC and Financial Conduct Authority ("FCA") published a joint Discussion Paper calling for input on how best to encourage the institutional investment community to engage more actively in stewardship of the assets in which they invest. This consultation proposed introducing regulatory measures to implement the provisions of the amended Shareholder Rights Directive (SRD II), which came into effect in June 2019 and aimed to promote stewardship and long-term investment decision-making.

Further to this, the FRC published the 2020 Stewardship Code, a substantial and ambitious revision to the 2012 edition of the Code, which takes effect from 1 January 2020.
The new Code sets high stewardship standards for asset owners and asset managers, and for service providers that support them. In particular, the new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The Code also contains new expectations of how investment and stewardship should be

integrated, including Environmental, Social and Governance ("ESG") issues. The Code asks investors to explain how they have exercised stewardship in relation to a broad range of asset classes – not only listed equities, which was the previous focus. This includes fixed income, private markets, infrastructure investments, plus investments in assets listed or located outside the UK. The Code is designed to accommodate the different terms, investment horizons, rights and responsibilities of each of these asset classes.

Requirements

The 2020 Code comprises of 12 'apply and explain' Principles for asset managers and asset owners, and 6 Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

Asset managers are required under the FCA Conduct of Business Sourcebook ("COBS") to develop and explain how they have implemented an engagement policy for their listed equity investments, including how they monitor investee companies, their voting behaviour and their use of proxy advisors.

Firms are also required to disclose the nature of their commitment to the Code or, where they do not commit to the Code, their alternative investment strategy (COBS 2.2.3R). Note that according to the COBS rules, if a firm is not complying with the Code, it does not have to disclose its ESG approach.

Disclosures made by firms in relation to the Code are useful for:

- Companies who want to understand the approach and expectations of their major shareholders.
- Those issuing mandates to asset managers, helping them to make a better informed choice,
- Asset managers who want to understand the expectations of currents and potential clients.

Stewardship Code 2020 Principles

Purpose and governance

Principle 1 *Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*

Principle 2 *Signatories' governance, resources and incentives support stewardship.*

Principle 3 *Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.*

Principle 4 *Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.*

Principle 5 *Signatories review their policies, assure their processes and assess the effectiveness of their activities.*

Investment approach

Principle 6 *Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.*

Principle 7 *Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.*

Principle 8 *Signatories monitor and hold to account managers and/or service providers.*

Engagement

Principle 9 *Signatories engage with issuers to maintain or enhance the value of assets.*

Principle 10 *Signatories, where necessary, participate in collaborative engagement to influence issuers.*

Principle 11 *Signatories, where necessary, escalate stewardship activities to influence issuers.*

Exercising rights and responsibilities

Principle 12 *Signatories actively exercise their rights and responsibilities.*

Application

Upon advice from the firm's legal advisors, AIG Asset Management (Europe) Limited ("AAMEL") does not commit to comply with the code and does not consider itself as being a signatory to the Code due to investing largely in asset classes other than equity shares, and as such explains its alternative investment strategy below using the FRC principles as a guide, noting that explanation of the individual principles is not strictly required.

AAMEL is an indirect, wholly-owned subsidiary of American International Group, Inc. ("AIG", and, together with its affiliates, "AIG Group") and is authorised and regulated in the UK by the FCA. AAMEL's primary purpose as an in-house asset manager is to provide investment services by carrying out discretionary management services on behalf of the AIG Group insurance companies and its affiliates. The AAMEL client base is relatively static and it does not currently does not actively market itself or seek additional unaffiliated or equities mandates to manage via a public website.

Its investment strategy is guided by Investment Management Agreements driven by its clients, who receive periodic reports and regular updates from the portfolio managers and CIO Group. Products invested in include public credit, derivatives for hedging, investments in commercial real estate debt and equity, residential real estate debt, private credit and alternative investments including sovereign bank loans.

AIG considers itself to operate in a responsible way in relation to its clients, employees and any underlying beneficiaries. AIG has in place various measures to ensure this including a Global employee Code of Conduct and a global Code of Ethics. AAMEL is a Core firm under the Senior Manager's and Certification regime, and as such believes it culture, beliefs and behaviours are strong and ethical. The firm has a conflicts of interest policy and employees are required to disclose personal outside business interests as well as personal transactions to reduce insider trading risk and to avoid any conflict of interests for the firm, its other clients or employees when carrying out trades on behalf of clients. As a MiFID firm, disclosure requirements such as trade and transaction reporting, best execution and client costs and charges reports, are met. Additionally, AAMEL has in place various policies, demonstrates a strong risk awareness and compliance culture throughout the firm and provides regular training to its employees. The firm has considered the effect that significant market wide and systemic risks could have on its business and its underlying clients from a risk and finance perspective, including changes in interest/currency rates and geopolitical issues such as BREXIT.

AAMEL's, engagement and involvement in exercising rights and responsibilities during the course of its investment business includes acting on behalf of its client in relation to investments held and as such may participate in voting or corporate actions across the following product lines.

- Public credit - AAMEL participates in corporate actions relating to its public credit business which may involve voting in relation to bonds held within its clients' portfolios. Each corporate action is reviewed with the relevant analyst and portfolio manager and decisions on how to vote in cases of tenders to buy back bonds or requests from bond issuers to change terms of documentation, for example, would be taken primarily with the view of the client in mind. Other factors considered when voting in corporate actions include what is best for performance of the bond and how any potential changes would fit with the relevant client's portfolio objectives.

- Private Credit - AAMEL acts in the capacity as a debt lender only for private businesses/companies. Deals are structured in such a way to ensure that it does not hold any Directorships or participate in any board level voting.

- Commercial Mortgage Lending - AAMEL acts as agent for its investment clients to invest in and arrange syndicated loans. Loans arranged by AAMEL are structured in such a way to ensure that voting rights can be used in the best interest of clients. In syndicated loans, AAMEL may be required to vote and this is done according to pre-determined rights and decisions are made in the best interests of the clients.

- CMBS and RMBS - in line with the AAMEL policy, the investment process involves a review of all documentation. For material amendments to transactions AAMEL would have voting rights as set out in the prospectus which detail the rights of each bond holder, depending on the tranche held. Voting arrangements, where relevant, are organised by servicing agents that are in place to control process. AAMEL votes according to our rights in the best interests of our clients.

From an Environmental, Social and Governance perspective, AAMEL follows the global AIG view and at this point in time there is a clear programme related to climate change in place. AIG supports the scientific consensus that climate change is a reality of increasing global concern, and as such, recognises that climate change may adversely impact of climate change on its business and global communities and is committed to playing a role in addressing these challenges.

Accordingly, in 2019, AIG announced the appointment of our first Chief Sustainability Officer to lead the development and implementation of a company-wide sustainability strategy. Following this appointment AIG formed a cross-functional, CEO-backed Climate Change Working Group to support with the development and execution of AIG's climate strategy.

AIG's climate ambition is to be an agent of change in helping the world navigate climate challenges and will work to:

- Integrate climate risks and opportunities into investment decisions
- Support clients in handling climate risk and opportunities through underwriting practices
- Lead by example, and set measurable and quantifiable targets to reduce its own emissions
- Amplify impact by helping shape the standards for insurers and by partnering with others

Three principles guide AIG's climate strategy and initiatives:

1. Reducing its operational carbon footprint and building resiliency towards increasing climate risks
2. Finding opportunities that support the green transition
3. Defining tailored solutions that deliver meaningful impact

AIG considers the potential impact from climate-related issues on its business, strategy and financial planning over different time horizons ranging from short- to longer-term and is committed to working with relevant insureds to assist them in the transition to a low-carbon economy, whilst working with stakeholders in a way that helps guide those stakeholders to more sustainable operations safely, quickly and productively.

As AIG continues to develop its wider ESG strategy and approach this report will be updated accordingly.

Obligations

Firms that comply with the Code are expected to provide a statement on their website containing:

- a description of how the principles of the Stewardship Code have been applied; and
- disclosure of the specific information required under Principles 1, 5, 6 and 7 (see above) or an explanation if these elements of the Stewardship Code have not been complied with.

This statement is to be posted on the AIG UK website in order to represent that AAMEL does not intend to comply with or become a signatory to the Stewardship Code.

Any questions related to this statement can be directed to complianceamglondon@aig.com