

## The Stewardship Approach

Deciding the ethical values of the Stewardship funds and arriving at where the funds can invest is essentially a three-step process.

**1) Ethical Policies** - decisions are made, and reviewed, regarding the ethical approach that should be adopted by the Stewardship funds across a wide range of ethical issues. Stewardship policies direct where the fund can and can not invest. The Committee of Reference, an external body of experts, takes these decisions. Decisions are informed by a combination of their own experience, information gathered and supplied by the Governance and SRI (GSRI) team from a wide range of sources and their interpretation of investor's views. The Committee meet quarterly.

**2) Company Approval** – deciding whether or not a particular company meets the ethical policies of the fund is the responsibility of the Stewardship Investment Sub Committee (ISC) of the Committee of Reference. In many cases this is quite straightforward, but on some occasions the ISC is required to make delicate judgement calls. Such decisions will be made based on their interpretation of the policies, the recommendations and analysis supplied by the GSRI team and their interpretation of investors preferences as well as their own consciences. The companies they approve form the Stewardship 'Approved List' of companies. The ISC meets quarterly.

**3) Company Selection** - the Stewardship fund managers select companies from the 'Approved List' based on their expectations of the financial performance of the company. Fund managers aim to get the best possible performance in a way that is consistent with the stated risk profile of the fund. When a fund manager comes across a new company they would like to invest in they submit it to the GSRI team to be researched in preparation for submission to the ISC. When a company's situation changes or a policy changes so that a company becomes 'unacceptable' the fund managers are given six months to sell their holding.

F&C is committed to ensure that Stewardship fund policies are;

*Transparent and clear.* We publish more detailed information about what our policies are, and the criteria we use to apply them, in a clear and concise fashion. As a result we hope this helps customers to understand our work, and to have confidence in our policies and processes. Information concerning updated policy statements is published in the newsletter and on the F&C website.

*Comprehensive and up to date.* We trust our policy statements are comprehensive, and demonstrate a thorough understanding of the ethical issues we address. Further to this, we aim to take into account current and emerging developments in all policy areas.

*Globally applicable.* Since Stewardship was launched in 1984 we have developed International options within our fund range. Our policies therefore need, where feasible, to be consistent from country to country, while reflecting and being sensitive to local cultures.

*Consistent.* In some policy areas we will update and change the basis on which we assess companies' suitability for inclusion in the funds. In the past we have sometimes used absolute 'cut-offs' for certain activities, for example where a company derived £1 million or more from a given activity. Given the need for globally relevant criteria that will stand the test of time, this has become less relevant. We have therefore changed some measures to percentage thresholds of revenue attributable to that activity, for example a maximum 3% from gambling.