Contact us

For queries about your account or for information about any of the F&C Funds please contact us.

Please remember to quote your account number on all communications to us

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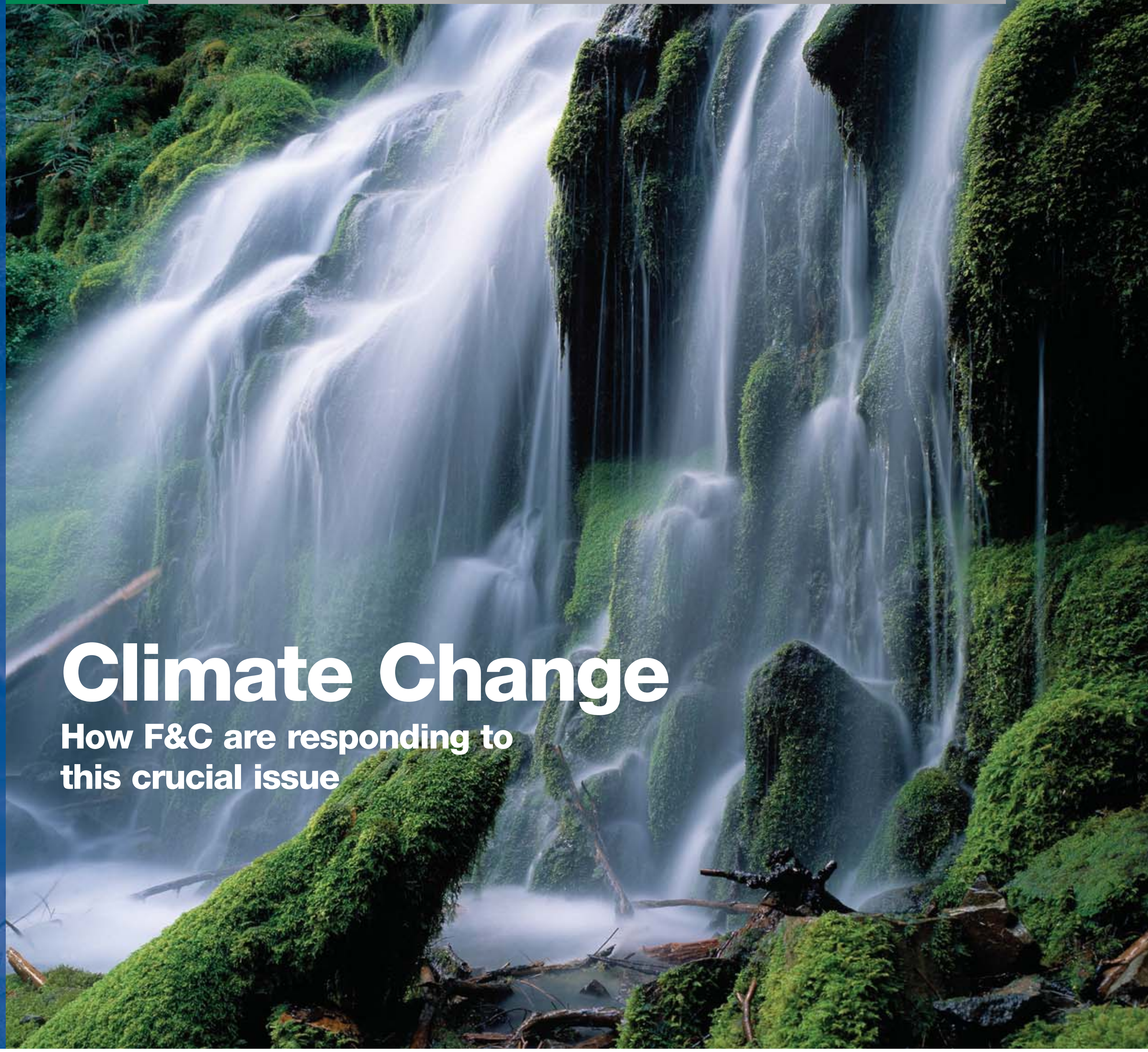
F&C Investments

Stewardship

The regular newsletter for Stewardship investors Spring 2007



Climate Change

How F&C are responding to this crucial issue

F&C Investments

Expect excellence

Welcome to Stewardship

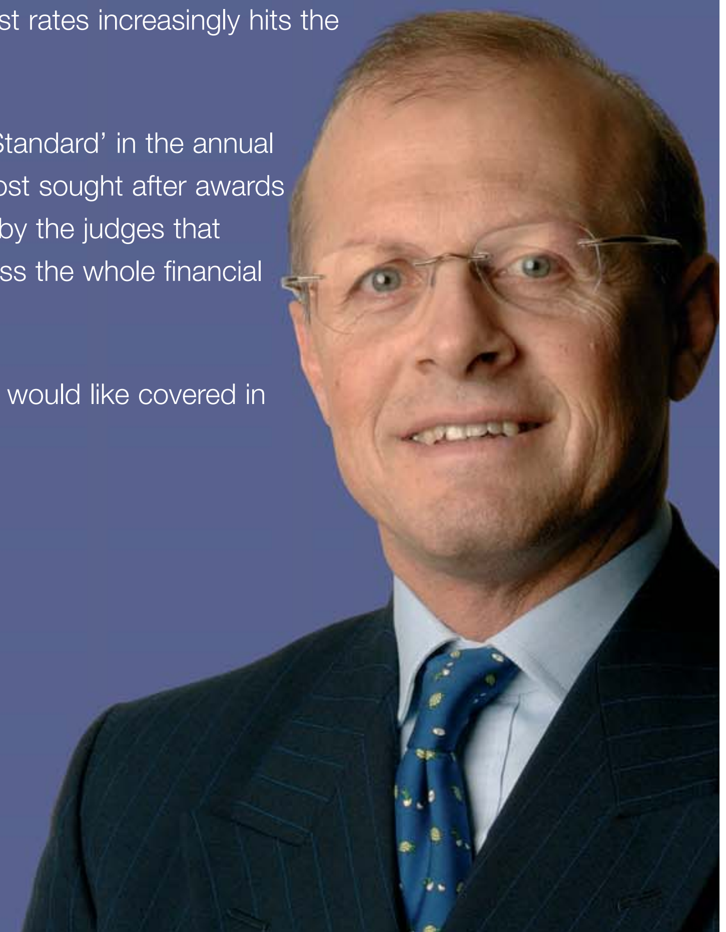
Recent research undertaken by F&C Investments confirmed a strong public demand for companies to act responsibly on social, environmental and ethical issues. Results showed that 87% of those surveyed felt companies should take these issues seriously and only 17% indicated they would never consider investing ethically. These results are good news for the future of ethical investment. Indeed, F&C is the UK market leader in ethical investment with over £3.1bn* under management via the Stewardship Funds.

Investment markets have delivered another strong set of returns over the last six months, overcoming concerns about inflation and interest rates. Investors took heart from the easing of inflationary pressures in the US and an apparent peak in US interest rates, while in the UK and Europe investors looked through the shorter-term inflation and interest rate 'noise' to drive markets higher. Underpinning this performance though has been reasonably strong economic growth, good corporate earnings figures and ongoing merger and acquisition activity. In turn, this has seen Ted Scott's, Stewardship Income and Stewardship Growth Funds deliver a particularly outstanding return.

Going forward we remain positive on the outlook for investment markets, though we believe returns will be more muted as the impact of higher interest rates increasingly hits the spending of consumers.

In December we were delighted to be awarded a 'Gold Standard' in the annual Incisive Media Gold Standards Awards. These are the most sought after awards in the industry and such is the high standard demanded by the judges that only 23 Gold Standard Awards have been given out across the whole financial services industry since their inception back in 2003.

If you have any feedback on the newsletter or topics you would like covered in future editions, please email **suggestions@fandc.com**



Nick Criticos
Head of Global Retail

*As at 31 December 2006

Water, water all around?

According to a recent UN report over 1 billion people lack access to clean and reliable water supplies. And with demand for fresh water remaining on an upward trend, water scarcity has the potential to become a defining crisis in the 21st century. In this article Sophie Horsfall, fund manager of the Stewardship International Fund, focuses on some of the key issues and highlights potential opportunities for the ethical investor.

A drop in the ocean

The amount of freshwater available for consumption is estimated to be around 1% of the world's total water supply. Crucially the impact of urbanisation, population growth and pollution is shrinking this figure further still, and the result is an ever increasing imbalance between supply and demand. The problem is not one which impacts just on developing countries however. Several industrialised nations, including the US and Australia as well as much of Southern Europe suffer acute water shortages either periodically or on an ongoing basis.

Agricultural thirst

There are many factors influencing demand for water and in most cases the prevailing ones such as increasing populations, urbanisation, industrialisation and pollution result in increased demand and reduced supply.

It is agriculture however which accounts for around 70% of the world's freshwater usage. The percentage varies between countries depending on their freshwater resources, climate and agricultural practices. In the UK for example it accounts for only 1% of the total usage whilst in Spain, Portugal and Greece the figure is nearer 70%. Many developed countries see around 90% of their freshwater resources dedicated to agriculture. In the US the depletion of groundwater reserves beyond their natural replenishing thresholds is becoming a real problem and one which according to the Organisation for Economic Co-operation and Development poses a real threat to the sustainability of agriculture and wider rural economies. The 'High Plains' aquifer which supplies water to around 20% of US cropland from South Dakota to West Texas is close to 'depletion' levels.

Water scarcity
In very simple terms water scarcity occurs when demand exceeds supply. The United Nations defines water stress and scarcity as follows:

- **Water stress –** when the country's annual supply of freshwater falls between 1,000 and 1,700 cubic metres per person. Such countries can expect to experience temporary or limited water shortages.
- **Water scarcity –** when a country's annual supply of renewable fresh water falls below 1,000 cubic metres person. Such countries can expect to experience chronic and widespread shortages of water that hinder their development.

Symptoms of water stress

The symptoms of water stress are becoming ever more visible. In Europe we've seen severe water shortages in Italy and Spain, and there is increasing scope for political conflict between nations as they compete for scarce resources. Portugal for example receives nearly half of its water from trans-boundary rivers of Spain, a potential problem should Spain increase extraction rates.

The US is suffering ongoing depletion of its groundwater aquifers, has already explored the potential for importing from the water-rich Canadians and experiences ongoing (and varying degrees) of tension with Mexico as needs increase on both sides of the Rio Grande.

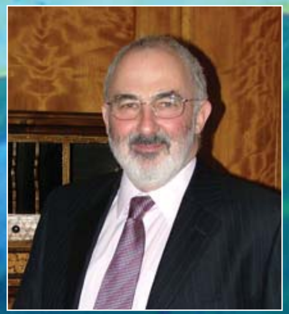
It is the developing world however where problems are often at their most acute. India's drive to achieve economic and agricultural self-sufficiency has seen freshwater reserves depleted and China's ongoing economic development has placed greater stress on already limited water resources. As is often the case, it is those living in these areas who feel water scarcity's full impact – poor access, high prices and the threat of disease.

Investment opportunities

For the ethical investor scarcity of water raises two key issues. Firstly, the need to avoid investment in areas/firms contributing to the problem and secondly the potential for investment in company's with possible solutions. The latter are likely to be found in areas such as the utilities, new technologies for water and waste water treatment.

We've recently looked to take advantage of opportunities in water related areas and currently hold Manila Water Company in our portfolio. The firm supplies over five million people, including poorer communities, with water services. Crucial to its inclusion in the Stewardship fund is its ongoing awareness to ensure water privatisation benefits all customers, including low income households – a fact demonstrated by its clear targets for improving the availability of affordable, safe and good quality water.

Report from the Committee



I have just taken over from Julia Unwin as Chair of the Committee of Reference, so this seems a good time to take stock. Our warm thanks go to Julia for her contribution to Stewardship. Whilst the main principles of ethical investment remain central to the structure of Stewardship, new concerns come into focus as issues arise and our understanding of them develops. When I first joined the Committee climate change was gradually becoming a separate issue, but it was still just one issue among many. Since the start of Stewardship, there has been keen interest in environmental matters – which still continues – but this had not gained the urgent focus recent awareness of climate issues provides. The family of matters which that encompasses are now at the very top of most peoples' lists, and this issue of the Stewardship Newsletter explains our approach.

The Committee has recently reviewed our policy on biodiversity, reconsidered the sale of alcohol and luxury goods, and investigated aspects of biofuels, privacy and the impact of new technologies in telecommunications and wireless identification. These are not academic considerations; each has a direct bearing on investment opportunities and limitations. Ethical investment in Stewardship is an intensely practical activity, as well as touching upon many of the great issues of our times. And they are rarely simple. Among the many specific and often difficult issues we wrestle with are those surrounding the provision of basic services in developing countries, where governance issues are less developed and information less available, but where the companies being considered for investment are supplying the necessities of life.

Both to inform those investment decisions, and to make clear our approach to investors, we work steadily on developing and refining clear and public policies on such matters. They can be seen on our website www.fandc.com.

A key to Stewardship's approach is not only to undertake negative screening but also focus on positive criteria, looking for opportunities for investment in products which enhance the quality of life, and in many cases provide the essentials for living. The positive criteria which we have identified are tools for the investment managers to pursue the continued success of Stewardship. These are areas requiring careful and balanced judgements. If ethical investment is to be a force for good, then it cannot merely exclude undesirable stocks. It needs to seek out opportunities to create good markets in product fields which are of wide benefit. However, these are frequently in new sectors of industry where a range of safeguards may not yet exist.

The Committee acts as a steward of investors' concerns. For matters of fine judgement in particular, we are greatly helped by knowledge of how those of you who invest in an ethical fund regard these considerations. We are keen therefore to ensure that we gather the views and concerns of our investors and potential investors, whilst maintaining the principles of Stewardship in an ever-changing world, recognising that there may be differing views on particular questions, each held with equal conviction. We want to be informed also where there are matters now on the horizon which are likely to move soon to the centre of affairs. So we continue to welcome any input you feel able to offer, and indeed hope to go further during the coming year to seek that out pro-actively. If you wish to tell us your views – and I hope that you will do so – please contact me at The Committee of Reference, c/o Sagarika Chatterjee, GSI Team, F&C Asset Management, Exchange House, Primrose Street, London, EC2A 2NY.

Tony Stoller
Chair, Committee of Reference

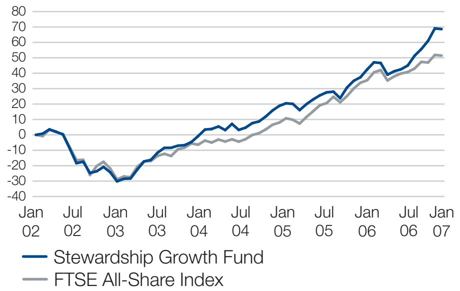
Performance update

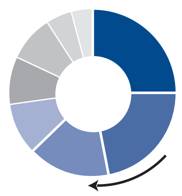
Stewardship Growth Fund

UK shares posted solid returns during the statement period and investors in Stewardship Growth enjoyed strong performance (both relative & absolute). Our ongoing preference for investments with what we believe to be real growth potential was positive, especially among medium and small sized companies. As 2006 progressed however we have become more cautious on the outlook for UK shares. Reflecting this view the fund manager sought to favour firms looking capable of growing their business irrespective of the prevailing economic environment.

Discreet annual performance % increase or decrease

31/01/02 to 31/01/03	31/01/03 to 31/01/04	31/01/04 to 31/01/05	31/01/05 to 31/01/06	31/01/06 to 31/01/07
-30.18%	42.07%	19.77%	15.62%	22.76%





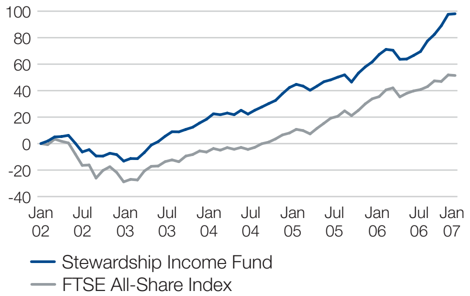
Top Ten Holdings (as at 31 January 2007)	**%**
Vodafone	3.4%
Scottish & Southern Energy	3.0%
Tesco	2.8%
National Grid	2.8%
Capita Group	2.7%
Workspace Group	2.3%
Informa	2.1%
Inchcape	1.9%
BG Group	1.8%
Cairn Energy	1.8%
Total	**24.6**

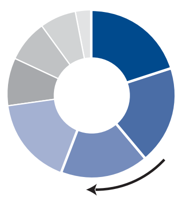
Stewardship Income Fund

UK shares posted solid returns during the statement period and investors in Stewardship Income enjoyed strong absolute and relative performance. Substantial exposure to the utilities was a notable contributor as share values in this area rose sharply. Later on we sought to lock-in some of these gains trimming back holdings and reinvesting the proceeds where possible in companies, such as Vodafone which offer attractive dividend payments. Reflecting our fairly cautious outlook we maintained a reasonably substantial allocation to corporate bonds – they offer a greater degree of capital stability and an attractive income stream.

Discreet annual performance % increase or decrease

31/01/02 to 31/01/03	31/01/03 to 31/01/04	31/01/04 to 31/01/05	31/01/05 to 31/01/06	31/01/06 to 31/01/07
-13.22%	36.42%	20.21%	13.62%	22.48%





Top Ten Holdings (as at 31 January 2007)	**%**
Vodafone	6.3%
National Grid	4.5%
United Utilities	4.4%
Alliance & Leicester	3.5%
Scottish Power	3.4%
Scottish & Southern Energy	3.3%
Wichford	1.4%
Premier Foods	1.4%
Tesco	1.3%
Cattles	1.3%
Total	**30.8**

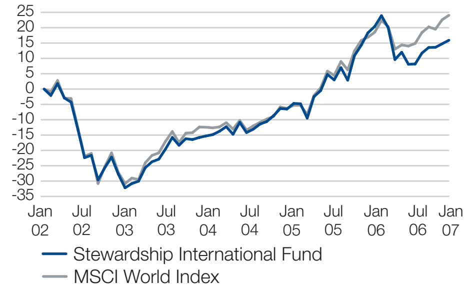
Stewardship International Fund

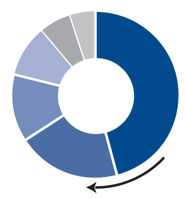
Global equities gained ground during the statement period with Stewardship International lagging slightly behind the broader stock market. Strategy remained focused on identifying those firms/areas with superior growth potential. At the geographical level for example we continue to like Asia, the emerging markets and Japan, boosting our exposure to the latter later on as we became increasingly confident in the ongoing recovery of Japan's economy. Alternative energy remains a key theme – and one we expect to persist as the world looks for renewable energy resources.

Discreet annual performance % increase or decrease

31/01/02 to 31/01/03	31/01/03 to 31/01/04	31/01/04 to 31/01/05	31/01/05 to 31/01/06	31/01/06 to 31/01/07
-32.21%	24.96%	10.80%	27.01%	-2.06%

Past performance is not a guide to future performance. Source: Lipper Hindsight, basis bid to bid, net income reinvested. For past performance data, updated quarterly, for F&C funds visit www.fandc.com





Top Ten Holdings (as at 31 January 2007)	**%**
Davita	1.8%
Toyota Motor	1.6%
Mitsubishi Estate	1.6%
Burlington Northern Santa Fe	1.6%
CVS Corp	1.5%
United Rentals	1.5%
Perkinelmer	1.5%
Hypo Real Estate	1.4%
Infosys Technologies	1.3%
Telekom Austria	1.3%
Total	**15.1**

High pressure building on climate change

Our objectives

- **Encourage adoption of clear, long-term government policies to shift to low-carbon economy.**
- **Encourage all companies with substantial greenhouse gas emissions to measure and minimise them, and publicly report on their strategy to manage the risks to their business posed by climate change.**

The enormity of the challenge the world faces in dealing with climate change is hitting home. Intense public and media interest across the world is putting pressure on governments to respond. Though policy frameworks remain somewhat patchy, and some countries are moving more quickly than others, the direction of travel now seems clear. The question for investors is how quickly governments will act, and whether policies will be strong enough to drive a major shift in investment patterns.

We believe that climate change presents significant business risks and opportunities across a wide spectrum of the economy. We aim to influence governments to put in place robust, predictable policy frameworks, and to persuade companies to look forward to what such frameworks may mean for their businesses.

The Stern Review is driving the political agenda...

The UK Government published the *Stern Review on the Economics of Climate Change*, on 30 October 2006, which is the most comprehensive analysis ever undertaken on the economics of climate change. The political reverberations will be significant. In Australia, Prime Minister Howard announced a taskforce to look into an emissions trading scheme for Australia, just two weeks after the Stern Review was published. While President of the EU Commission, José Manuel Barroso, now says he wants the EU to be a leader on climate change action.

Through F&C's membership of the *Corporate Leaders' Group on Climate Change* we have actively contributed to this report by emphasising the opportunities that climate change presents to business, as well as the need for policy clarity to enable long-term investment planning. These principles were clearly reflected in the Review's findings.

...and carbon markets are gaining momentum

A second recent development was the European Commission's rulings on the Phase II National Allocation Plans governing the permitted carbon emissions of 10 of the 25 EU Member States. These rulings were critical to the future of the European scheme, given the near-collapse in the carbon price in April 2006 when markets realised that governments had been too generous in handing out Phase I permits. So a soft approach by the Commission to Phase II could have sounded the death knell for the scheme's credibility.

But the decisions surprised many by their toughness. This reflected strong pressure by, amongst others, a group of 25 companies who wrote to President Barroso to call for tight caps, 17 of which (including F&C) met him to press the case. We played a key role in bringing the group together, persuading companies including Deutsche Telekom, Statoil, Asda, General Electric, and JP Morgan Chase that this was an important opportunity to influence the future direction of EU policy.

Of the ten Member States whose schemes were reviewed by the Commission, only the UK's was judged to be ambitious enough. This reflected strong lobbying by F&C via the Corporate Leader's Group for the UK Government to set its cap at the lowest end of the possible range. Decisions on the remaining 15 schemes are still to come. But our expectation is that Phase II – which runs from 2008 to 2012 – will deliver genuine scarcity of unused permits and a more stable carbon price than the current phase.

What is emissions trading?

Under an emissions trading scheme, companies covered under the scheme (usually big emitters like power generators and heavy industry) have to surrender a permit for each tonne of CO_2 they produce. Governments give out a certain number of these permits to companies. If a company needs to emit more than its allocation, then it can buy additional permits in the carbon trading market from another company which has managed to cut back its emissions. This market mechanism ensures that emissions reductions take place wherever they are cheapest to implement. But in order for the scheme to "bite", the number of permits handed out must be less than actual emissions in the region – otherwise there will be a glut in the market, and the price of carbon will fall to zero.

Biofuels zoom ahead...

Action on climate change is good news for companies involved in alternative energy. One area attracting significant interest is biofuels, which are emerging as a commercially viable low-carbon fuel. Biofuels are already a $15bn/year market, and have recently seen a surge in investor interest reflecting growing government support. This, in turn, has been driven by three key factors: energy security; pressure from farmers, who stand to benefit from new demands for their crops; and climate change.

We expect that more governments will introduce a supportive regulatory framework for biofuels, such as tax breaks or mandatory fuel blending targets. Already:

- In Brazil, there are 3 million cars running exclusively on ethanol, while 80% of light passenger vehicles are "flex fuel" i.e. run on gasoline, ethanol or both.
- The European Union aims for 5.75% of transport fuel to come from biofuels by 2010 and the USA aims to increase biofuel consumption from 4 billion to 7.5 billion gallons by 2012.

...but is there a cloud on the horizon?

We see significant concerns and threats to industry growth, including:

- Growth in fuel crops is likely to intensify competition for land between food, fuel and conservation uses; if deforestation accelerates, the CO_2 savings from biofuel production will be negated by the loss of forest that absorb large quantities of CO_2 and recycle it back to oxygen.
- Many methods of processing biofuels are highly energy-intensive, thereby achieving modest net savings of greenhouse gases.
- Biofuel crops may be grown or processed using genetic modification, which holds promise for raising yields and cutting energy use – but remain a controversial technology in Europe and elsewhere.
- Palm and soybean oils are emerging as popular low-cost feedstocks for biodiesel, but their production has been associated with damaging fragile ecosystems and endangered species.

The credibility of the "biofuels story" may be questioned if the technology fails to resolve these concerns; this could, in turn, prompt environmental campaign groups to press governments and oil companies to withdraw support for biofuels.

We believe that biofuels companies can help to safeguard their favourable position if they can show that they have clear net positive impacts on greenhouse gas emissions and the supply chain. While they can tackle the land use question by sourcing sustainably-grown feedstock, supplies are limited and it can be difficult for individual biofuels companies to influence agricultural practices, particularly where supply is dominated by commodities traders. We feel that sector-wide initiatives to develop common standards are an appropriate response to the structural problems faced by a fledgling industry.

We have pressed biofuels companies to demonstrate a commitment to a more sustainable industry. Those that have indicated they will do so include D1 Oils, Petrotec, Clean Energy Brazil, China Sun Bio-Chem Technology, Global Ethanol, and Pacific Ethanol Inc. We expect biofuels companies to:

- Understand and measure net greenhouse gas emissions to clarify whether the overall carbon impact is positive.
- Publish a policy to source feedstock sustainably.
- Participate in industry initiatives such as the Roundtable on Sustainable Palm Oil, and the equivalent, under development for soy.

Certain industry players, such as Shell and the Virgin Group, are investing in second-generation technologies such as "cellulosic" biofuels, which can be produced from a wide range of feedstocks, including agricultural and urban waste. These may emerge as a viable long-term solution, but in the interim we expect biofuels will attract both increased investment and increased public scrutiny.

Stewardship gets ‘positive’ update

The Stewardship fund range looks to meet the needs of investors who wish to align their investment decisions with strong personal beliefs. In keeping with this desire Stewardship funds invest in companies that make a positive contribution to society and the world we live in, while avoiding investment in those that have harmful effects.

Stewardship’s ethical policies and the list of ‘acceptable’ stocks are defined by an independent body – the Committee of Reference. A key part of their role is ensuring the ‘positive’ and ‘negative’ criteria remain applicable to today’s economic, social and environmental world.

Emphasising the positive

The Committee has recently worked to ‘update’ the positive criteria for the funds categorising positive activities into four broad areas:

- **Providing access to goods and services essential for everyday life,** such as healthy food, housing, clothing, water, energy, communication, healthcare, safety, personal finance and education.
- **Improving the quality of life through responsible use of new technologies,** such as internet access and mobile telephony.
- **Meeting sustainable development challenges,** by providing society with, or supporting the provision of, clean energy, low-carbon technologies, public transport, urban regeneration, brownfield development, sustainable design, waste reduction, energy efficiency and water management.
- **Offering customers ethical product choices,** such as organic products, locally sourced produce and fair trade goods.

Striking the balance

In many cases the business activities and focus of individual firms, such as those involved in tobacco or weapons manufacture, clearly rule them out of Stewardship’s investment remit. There are however occasions where the distinction is less clear cut. In circumstances such as these the Committee exercises a collective judgement considering whether any ‘negative’ breaches are minor, inconsequential or non-material when placed in the context of the firm’s overall business activities. This override tends only to be used in exceptional circumstances.

Investments with positive potential

In addition to the strong moral drivers we’re keen to emphasise the fundamental commercial arguments supporting the Stewardship ethos. We believe that better managed and responsible companies place themselves in a more viable position in the long-term, a fact which is potentially great news for those actively investing in them. Indeed, many companies aligned with Stewardship’s principles find themselves increasingly favoured by investors (both professional and private) who choose to operate without ethical restrictions.

Increasingly, firms with positive characteristics can be found across the marketplace – a shift reflecting the ever increasing pressure from society in terms of expectations relating to both what we demand from them in terms of behaviour as well as the preferences we express through our spending patterns for goods and services. For the ethical investor this serves to widen the opportunity set beyond areas traditionally associated with ‘screened’ funds. A glance at some of the firms currently favoured in the Stewardship range serves to highlight this point.

A selection of our current favourites – companies which meet the positive criteria and pass the negative screens include:

- **Ruralec,** which provides electricity to isolated rural communities in Bolivia and Argentina, and **Renewable Energy Holdings,** which operates and invests in bio-energy, wind and wave power projects.
- **Ocean Power Technologies,** involved in wave-powered electricity.
- **Marks & Spencer** – the first major retailer to switch all coffee and tea to Fairtrade.

Rise of the green shopper…

Now more than ever before consumers appear willing to express personal preferences and beliefs through their spending decisions. Here we look at some of the reasons behind this shift and explore how retailers are responding.

Able to choose

By and large today’s consumers have more disposable income than ever before, a fact which combined with falling supermarket prices results in the weekly grocery bill accounting for a less significant portion of overall household spending. In turn this means price is becoming, in many cases, a less significant factor in what we choose to buy – increasingly the focus is on other considerations such as health, convenience, the environment, social impact and indulgence.

Meeting demand

In a highly competitive environment supermarkets have been relatively swift to meet this increasing demand, and are keen to emphasise their green credentials and ‘corporate responsibility’ whenever possible. Most of the UK’s largest food retailers have moved to raise the profile of ethical issues, developing ‘greener’ options alongside existing product ranges. Marks & Spencer for example ran a highly successful ‘Look behind the label’ campaign during the first half of 2006, designed to promote ‘ethics’ across its brand (and highlight any weaknesses of its competitors). Rather than focusing on one sole area the campaign encompassed a range of issues from salt reduction in food to animal welfare. In January Marks & Spencer went even further by announcing a £200m 5-year plan to become a carbon neutral, zero-waste-to-landfill, ethical-trading, sustainable-sourcing, health-promoting business.

Such initiatives and the growing number of ‘green’ options on supermarket shelves serves as notice that retailers see the ethical consumer as a significant segment of their customer base. Not meeting their needs adequately has the potential to become a material risk to the longer-term success of their businesses. It is worth noting however that supermarkets have, by virtue of their market position, been able to position ‘ethical’ ranges, including organic produce, as premium brands and price them accordingly.

Going organic & supporting Fairtrade

The global organic foods sector grew by 15% in 2005, valuing it at around US$30bn. Perhaps unsurprisingly it is the US and Europe which account for much of the demand with the latter recently becoming the largest market for organic foods. Marketing campaigns and better food labelling combine to raise awareness of organic products with consumers keen to align food purchases with healthier lifestyles, not to mention the impact of recent food health scares.

Aimed at ensuring producers, usually based in the developing world, receive fair treatment in terms of prices (as well as benefiting from finance for development initiatives) Fairtrade products have proved to be exceptionally popular. Initially focused on coffee Fairtrade now encompasses a range of products including tea, bananas and chocolate. More recently Fairtrade wines were introduced and Marks & Spencer launched a Fairtrade clothing range.

Our focus on supermarkets

F&C has used its influence as investors to encourage supermarkets to address environmental, social and governance issues as well as pushing for higher standards in terms of nutritional labelling, climate change and supply chain management. Whilst a raft of environmental initiatives from many of the UK’s leading names, including Tesco, Marks & Spencer and Sainsbury, is certainly encouraging, there’s much room for improvement as the industry looks to establish its green credentials.

Regulatory issues

Contingent asset – VAT reclaims following the Abbey decision

The funds are entitled to repayments in respect of VAT charged on certain administration services that are now considered not to attract VAT. We are close to finalising negotiations with the relevant suppliers as to the amounts now recoverable although payment is expected to be subject to further discussions with HMRC. We intend to update the contingent asset notes in the accounts of the funds to include the expected amount of any recovery as soon as this has been determined. We will not reflect the expected recovery in fund pricing until we can be confident of the expected payment date.

Dilution – notice of changes to fund pricing

When there are significant inflows or outflows from any of our funds costs can be incurred by the fund which may dilute its performance. This is because fund share prices for buying and selling are calculated using a mid price value (half way between the bid value and offer value of the fund). To mitigate this we currently impose a dilution levy on large transactions, which is credited to the fund. However, the rules governing collective investments also provide for this impact to be mitigated by adjusting the prices we calculate - a process called ‘swinging single pricing’. What this means is that although prices will continue to be normally based on a mid price value, on a day when there are significant purchases the fund price may be adjusted towards the offer price value and similarly on days when there are significant redemptions the fund price may be adjusted towards the bid price valuation. This means the share prices we use more closely reflect the underlying dealing prices on the day in question. It is our intention to adopt this method of mitigating the impact of dilution as soon as practical after May 2007.

PEP and ISA changes

The Treasury have announced changes to the PEP and ISA regulations, to take effect from April 2008. In particular, proposals that transfers are to be permitted from PEPs and Mini Cash ISAs into Stocks and Shares ISAs. The distinction between Mini and Maxi ISAs is also to be removed. F&C will still offer ISAs with a Stocks and Shares Component.

The necessary legislation is due to be passed during 2007 and F&C will amend its literature and procedures as soon as practical to give effect to the new arrangements. Details of developments will be available at www.fandc.com.

Name change - Corporate Bond Fund

The F&C Fixed Interest Fund has changed its name to F&C Corporate Bond Fund with effect from 8 January 2007 to more closely reflect its investment policy.

Fund Charges – notice of change in accounting costs

We intend to charge third party fund accounting and fund valuation costs direct to the funds. This cost per fund is about £5,000 p.a. equivalent to about a 0.01% increase in a fund’s Total Expense Ratio depending on its size. Subject to regulatory approval the charge will be implemented no later than 1 June 2007.

F&C – A Gold Standard Company

GOLD STANDARD AWARDS
CAPABILITY · SERVICE · VALUE · TRUST · FINANCIAL STRENGTH
WINNER

The winners of the 2006 Gold Standard Awards were unveiled at the Incisive Media awards ceremony held at the House of Commons in London, with F&C awarded 'Gold Standard' in the Fund Management category.

Such is the high standard demanded by the judges that only a few companies make it each year. In fact, only 23 Gold Standard Awards have been given out across the whole financial services industry since their inception back in 2003.

Designed to help restore consumer confidence in financial services, the Gold Standard Awards have made contributions to both the Treasury Select Committee Inquiry: Restoring Confidence in Long Term Savings and to the FSA's initiative: Treating Customers Fairly.

The Awards aim to identify financial services companies that excel not just in service but in all five key areas important to consumers of financial products and services - financial strength, capability of the company to conduct business, service, fair value and trust. No other awards consider all these elements, making the Gold Standards the most sought after awards in the financial market place.

Financial strength The ability of the company to meet customer expectations in terms of its capacity to continue to operate in a relevant form, with companies rated against their peers.

Capability This area looked at F&C's overall expertise and our ability to operate as a fund manager. Typical elements taken into consideration include business structure, staff expertise and training.

Service The ability of F&C to maintain an effective post-sales relationship with both investors and intermediaries. Typical areas assessed were how companies communicate with their investors and intermediaries and the nature of the points of contact.

Fair value This assesses whether customers are getting value for money from F&C. It compares charges and benefits against a typical range of products offered by other companies in the same category.

Trust The ability of F&C to instil confidence in consumers through the customer experience, the media, advertising and marketing. Judges looked for a coherent message, which is transmitted not only to customers but within the company itself. Attention was also paid to the ethical use of product literature and performance as well as the adoption of corporate governance standards.

Companies were judged by a panel of experts with candidates assessed on whether they meet the Quality and Standards Benchmark set by the judges. The benchmark was set so that winners have to achieve significantly higher than average assessment in all five areas.

The main judging panel was also supplemented by a group of users of financial services, including intermediaries and consumers, who provided the judges with their feedback and experience on individual companies.

Effective yields introduced for Corporate Bond Funds

During 2007 the way in which income is accrued by fixed interest funds, or funds with part of their assets invested in fixed interest stocks, will change. This is the result of new accounting standards introduced by the International Accounting Standards Board, which bring the UK into line with accounting standards in the rest of the world.

The new rules come into force at the end of the current financial year for each individual fund, so it will be a full twelve months before all fixed interest funds in the UK are calculating their income payments in the same way.

The change

Up until now the income paid out by any fund with fixed interest investments reflected the income received by the fund from the assets held, less the charges and expenses.

Going forward, income returns will have to take into account any capital appreciation or depreciation that will occur on any holding when it is acquired by the fund. Importantly, this will in no way affect the total return on your investment as any reduction in income will be compensated for by an increase in the capital value of assets held. It is possible to calculate income on this basis due to the particular nature of fixed interest investments, which normally have a specific maturity date when they mature and the loan is repaid. We have sought to clarify this somewhat confusing concept with the example shown in the box opposite.

The dates on which F&C's funds will move to the new calculation basis are as follows

European Bond	1 January 2007 (already in place)
Sterling Corporate Bond	1 January 2007 (already in place)
Strategic Bond	1 January 2007 (already in place)
Managed Distribution	1 January 2007 (already in place)
Extra Income Bond	1 May 2007
High Income Bond	1 May 2007
Maximum Income Bond	1 May 2007
Corporate Bond (formerly Fixed Interest)	1 September 2007
Global Bond	1 September 2007

If the change is going to have a material impact on the level of income you are likely to receive from your investment we will write to you to confirm the extent of any change, though as mentioned previously, there will be no impact on the total return on your investment.

Effective yield example

This illustrates how returns on a UK Government stock would have altered over time using effective yields. As bonds are monetary loans you buy a nominal amount of the loan, say £100, with the cost depending on the price.

Under the old way of calculating income, £100 Conversion Stock 9% 2011 delivered £9 of income per annum until the £100 is repaid in 2011. The following shows how under effective yields the same stock can deliver different levels of income.

Example 1
£100 nominal bought on 01/01/1991 for £88.25 generates an effective yield of 10.40% and income of £10.40 pa.

Example 2
£100 nominal bought on 2/01/2006 for £123.66 generates an effective yield of 4.16% and income of £4.16 pa.

The two yields differ because they take into account changes in the capital value of the nominal holding ahead of repayment in 2011. Example 1 incorporates a value increasing from £88.25 to £100 on maturity, while example 2 incorporates additions to the capital of the fund to compensate for the drop in value from £123.66 to £100.

Sudoku competition

		6		3		5		
3								8
			9		1			
		9	5		2	8		
	4	3				6	7	
		8	4		3	9		
			1		8			
2								6
		7		9		1		

The aim of Sudoku is to fill in all the squares in the grid so that every row, column and each of the nine 3x3 squares contain all the digits from one to nine.

As you'll see some of the cells are already filled in, these cannot be changed.

The aim is to fill the other empty cells with the numbers between 1 and 9 (one number only in each cell) according the following guidelines:

- The number can appear only once in each row
- The number can appear only once in each column
- The number can appear only once in each 3x3 square

Therefore each vertical column, horizontal line and 3x3 box must contain the numbers 1 to 9, without repetition or omission.

Solving a Sudoku puzzle does not require knowledge of mathematics; simple logic will suffice.

The Sudoku puzzle has only one solution.

Title First name

Surname Address

Tel Postcode

Please return by 30 April 2007 to **F&C Asset Management Viewpoint Sudoku, c/o BKT, North Farm Road, Tunbridge Wells, Kent TN2 3BW**

☐ **Red Letter Days experience**

☐ **Donation to Shelter**

Win a Red Letter Days experience or a donation on your behalf to Shelter

Thank you to everyone who entered the crossword competition in the last edition of *Stewardship*. This time we're running a Sudoku competition which we hope you enjoy.

In this edition you have the chance to win either a Red Letter Days experience or a donation on your behalf to the housing and homeless charity, Shelter.

Once you've completed the Sudoku competition please return it to the address above, remembering to select your preferred prize. Prizes will be awarded to the first three correct answers drawn on the 30th April 2007.

Good luck!

Shelter

Shelter registered charity number 263770

red letter DAYS