

F&C

Corporate Governance: Operational Guidelines

Japan

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F&C
Investments

Expect excellence

Contents

1. Overview of key principles and approach	2
2. Role, structure and operation of boards	2
3. Board Committees	6
4. Reporting	8
5. Remuneration	10
6. Shareholder rights	12
7. Voting matters	13
Appendix 1: Sustainability Reporting and Disclosure	15
Appendix 2: Business Ethics & Internal Controls	15



These Guidelines set out F&C Management Ltd. (F&C)'s expectations of investee Japanese companies in terms of good corporate governance, and explain how F&C exercises its votes.¹ They apply to all Japanese holdings and should be read in conjunction with F&C's "Responsible Ownership" policy,² which describes F&C's overall philosophy and approach to voting and engaging with companies on environmental, social and governance (ESG) issues.

The guidelines are structured as follows:

- Preamble
- Overview of key principles and approach
- Role, structure and operation of boards
- Board committees
- Reporting
- Remuneration
- Shareholder rights
- Voting matters.

Preamble

The following outlines F&C's Corporate Governance policy and guides its voting on all Japanese stocks. It applies to all F&C retail portfolios, and the resultant voting record is published each month, along with detailed explanations, on F&C's website.³

F&C's 'House' voting policies are also applied to F&C's institutional client portfolios. However, each of F&C's institutional clients has

ultimate control over the determination and execution of its voting policy. F&C will recommend a voting stance to its clients on the basis of these policies, but will defer to its clients in individual cases where they may choose to vote otherwise. In cases where an individual client's voting preference is at odds with the F&C recommended position, this will be applied solely to that client's funds, and shall under no circumstances apply to the voting instructions issued on behalf of other F&C client portfolios. Institutional clients receive a full detailed report of their funds' voting record on a quarterly basis, and have the option of publishing it if they wish. F&C's voting and governance policies underpin its engagement with investee clients, and guide its voting at AGMs and EGMs.

F&C will apply these guidelines when voting on behalf of client portfolios, unless otherwise instructed.

F&C expects to update this document annually to reflect regulatory changes, evolving market practices and any other relevant developments.

1. F&C votes on its own equity holdings, as well as on the holdings of third-party clients of F&C's **reo**[®] (responsible engagement overlay) service.

2. <http://www.fandc.com/governance>

3. <http://www.fandc.com/governance>

1. Overview of key principles and approach

F&C has established a global philosophy and approach to corporate governance and exercising its votes. Its approach is based on the overarching principles of:

- An empowered and effective board and management team;
- Appropriate checks and balances in company management structures;
- Effective systems of internal control and risk management covering all significant issues, including corporate responsibility issues;
- A commitment to promoting throughout the company a culture of transparency and accountability that is grounded in sound business ethics; and
- Remuneration policies that reward the creation of long-term shareholder value through the achievement of corporate objectives.

As a global investor, F&C recognises that such principles may be expressed differently in different markets. These guidelines are specific to the Japanese market. Therefore, its voting policies take account of local practices and are applied in a pragmatic fashion that reflects an integrated understanding of local and international good practice. In all cases, F&C aims to achieve the same result: the preservation and enhancement of long-term shareholder value through management accountability and transparency in reporting.

Achieving best practice in corporate governance is a dynamic

process between board, management and shareholders. F&C encourages companies to engage in the process of shaping and meeting evolving standards of best practice. While F&C's voting is strongly rooted in a clear set of corporate governance principles, it strives to approach each company's case on its merits and relies on staff expertise, discretion, and dialogue with companies to do so. F&C encourages companies to make contact to discuss any areas where they consider divergence from its guidance to be necessary and justified.⁴ When F&C does not vote with directors' recommendations, it writes to the company and explains the reasons why.

Japan White Paper, Asian Corporate Governance Association⁵

In May 2008, the Asian Corporate Governance Association published its Japan White Paper. The paper examines the key areas in which Japan lags global best governance practice, and makes six recommendations for improving practice in these areas. F&C fully endorses the recommendations of the White Paper, which it co-authored, and incorporates these into its voting decisions.

2. Role, structure and operation of boards

Introduction

The board is ultimately responsible for the management of the company. This is mainly achieved through the delegation of powers to the executive management. The board should receive the report of the executive on the conduct of the business, and it should question the executive on these matters. However, certain matters should be reserved for the board. It is responsible for testing and setting strategy proposed by the executive, and for succession planning of both the executive and the board as a whole.

The structure, composition and operation of boards will vary from company to company. Certain elements of effective boards are universal, and these are detailed below under the following sub-headings:

- Roles and independence;
- Competence, objectivity and renewal;
- Effective functioning of boards; and
- Accountability to shareholders.

Other factors will vary depending on the nature of the business, its size and complexity, the company's stage of development, the ownership structure, the remit of the board and the skills of the individuals on the board. Wherever possible, F&C will strive to reflect

in its voting the individual circumstances facing each company, based on its understanding of how they may affect its long-term profitability. F&C welcomes and encourages the initiative from companies to draw its attention to specific areas where they believe such departures from its guidance are justified.

Board structure, roles and independence

F&C uses the term "board" to cover the three-committee board and the board with a statutory auditor board. In Japan, the latter historically is the model most frequently employed, although a growing number of companies have adopted a three-committee board. While F&C accepts both board structures, it considers the three-committee model best practice and strongly encourages companies to adopt it. In both cases, the size of the board should not be so large as to prevent it from making timely and well-informed decisions, and normally should have between five and 15 members (see "Board size" on page 4).

Board with statutory auditor board

Where companies have chosen to retain the statutory auditor structure, the independence of the statutory auditors (Kansayaku) is key to effective oversight of the company. The statutory auditors

4. F&C expects to vote at all company meetings. These votes will usually be by proxy, except where specific circumstances make attendance by a representative of F&C desirable. When F&C does not vote with directors' recommendations, it writes to the company and explains the reasons why.
5. Please see http://www.acga-asia.org/public/files/Japan%20WP_%20May2008.pdf for full text of the White Paper.



should number at least three, the majority of whom should be independent. In this regard, F&C's expectations exceed the requirements of the Japanese Company Law, which stipulates that at least half of the auditors must be outside auditors. In addition we would expect the statutory audit board to consist exclusively of individuals with a strong grasp of financial and audit related matters and to stand for re-election at least every four years, as required by the Japanese Commercial Code, and preferably more frequently.

Three-committee board

Since April 2003, companies have been permitted to adopt the so-called "three committee" board structure, with committees responsible for audit, nomination and remuneration – a development that F&C welcomes and encourages companies to follow. Under this model, and in line with the Japanese Commercial Code, each of the board committees should consist of a majority of independent directors. Directors' principal focus should be the promotion or development of the company as a whole, including strategic planning and management succession.

The role of the chairman and separation of principal roles

For either board structure, the role of the chairman is key. The chairman sets the agenda of the board in consultation with the company secretary, the executive and the directors. He is the person responsible for the appointment and removal of the chief executive (CEO).

The roles of chairman and CEO are substantively different and generally should be separated. F&C regards separation of the roles as important for securing a proper balance of authority and responsibility between executive management and the board, and preserving accountability within the board. If for any reason the roles are combined, e.g. over an unexpected transitional period, this should be explained and justified in the report and accounts. In all such cases, a notably strong senior independent non-executive director must be nominated. F&C would not expect a retiring CEO to assume the role of chairman. In such cases, F&C would look for reasoned justification from the company to explain this deviation from good practice. The chairman should not be a member of any board committees, with the possible exception of the nomination committee.

Executive Committee

Companies should establish an executive management committee which is responsible for overseeing the day-to-day operations of the business. An appropriate number of executives should be represented on the main board to ensure board deliberations are based on a full understanding of company operations.

Non-executive directors

Outside directors can add significant value by enriching board discussions with diverse professional experiences while strengthening the objectivity and balance of board decisions. Valid concerns over outside directors' time constraints and lack of familiarity with operational matters can be overcome through the delegation of day-

to-day management concerns to an executive committee. This separation of responsibilities will allow the board to focus its attention on guiding strategy and general oversight of the company.

To ensure that boards are able to attract high calibre directors, the nomination committee should not restrict the selection of candidates to certain professions or nationalities. A diverse and balanced group of independent directors may prove to be a competitive advantage particularly for those companies with international operations.

While F&C does not have rigid rules about the number of directorships an individual director can hold, the director must have sufficient time and energy to discharge the role properly, particularly during business situations requiring exceptional investments of time. Factors that determine the appropriate number of directorships are the size of the company, its complexity, its circumstances, other commitments that a director has and the results of board evaluation, among others. F&C considers that holding over four directorships in large companies is likely to be excessive for even a full-time non-executive director, especially if participating in board committees. A reasonable number will be lower for a full-time executive. In addition, nominating committees should carefully consider the time required for other demanding leadership roles, such as the boards of private companies and large charitable organisations.

Proportion of non-executive directors on the board

Strong decisions arise from open and direct interplay between boards and company executives. It is important to have enough independent non-executive directors for an adequate diversity of views and to fill committee memberships if the company chooses this model. For this to be achieved and to ensure that the influence of non-executive directors in the main board is meaningful, F&C would, in most cases, expect there to be a minimum of three fully independent directors on the board.

Independence of non-executive directors

Independence of individual directors is valued, but a well-balanced board is valued above all. F&C will support non-independent directors where they bring skills, sector knowledge and other experience that justify their presence on the board.

F&C's criteria for the independence of directors draw on a variety of standards, including the OECD Principles of Corporate Governance, national corporate governance codes and listing rules and guidance given by the International Corporate Governance Network, among others. F&C favours a principles-based approach, as it seeks to ensure that directors are able to act in the interests of the company and its shareholders. Companies should consider using the corporate governance report or annual proxy to explain the board evaluation process, and to justify the value that non-independent directors bring to the board.

Non-executive directors have a valuable contribution to make to the board. The Japanese Commercial Code has established the following criteria for independence of board directors, according to which such directors:

- Have no power to execute business operations on behalf of the company;
- Are not authorised to execute business operations on behalf of any subsidiary of the company;
- Are not employed by a subsidiary company, or serving as a statutory auditor of such a company; and
- Have not in the past been empowered to execute business operations on behalf of the company or its subsidiaries, and have not served as an employee or a statutory auditor of the company or its subsidiaries.

Moreover, if companies exchange directors, those directors are no longer considered independent.

F&C's expectations exceed the criteria for independence of board directors of the Japanese Commercial Code, and F&C strongly believes that independent board directors should also:

- Not have close family ties with any of the company's advisors, directors or senior employees;
- Not hold cross-directorships or have significant links with other directors (see 'Interlocking boards' below);
- Not be major shareholders or representatives of a parent company or any special interest group, or former employees of such groups, or representatives of affiliated companies;
- Have no commercial involvement with the company as professional advisers or major suppliers or customers
- Not be entitled to performance-related pay, stock options, or pensions, and
- Not normally hold other directorships in companies in a closely related industry.

In addition, F&C believes that prolonged membership of a board may jeopardise independence. After serving for twelve years, a director should no longer be regarded as independent.

Competencies, objectivity and renewal Competencies and perspectives

A relevant and suitably diverse mix of skills and perspectives is critical to the quality of the board and the strategic direction of the company. Companies should therefore strive to widen the pool of potential candidates to ensure that they draw on the richest possible combination of talents and outlooks. The use of specialist recruitment consultants and other appropriate sources, including public advertisement, as well as recruitment of candidates from outside of Japan, should be considered. Boards should recruit members with the best possible combination of skills and experience and should affirm the value of individual diversity, including diversity of gender, ethnic origin, nationality, professional background and many other factors so as to enhance the board's and the company's overall performance. While boards should not be transformed overnight, F&C looks for an equal opportunities policy or diversity statement, and seeks evidence that the basic principles of openness and effectiveness are achieved.

Interlocking boards

F&C seeks to ensure that directors are not only independent from the company, but also of one another. F&C expects companies to disclose interlocking board relationships and to explain how the independence of individual directors is preserved when directors jointly serve on two or more of the same boards.⁶

Disclosure of biographical information

F&C is concerned that disclosure of biographical information on directors is often limited, and in some cases, shareholders are asked to elect directors by slate. These practices make it difficult for shareholders to make an informed assessment about directors' independence and qualifications, and to hold directors individually accountable for their performance.

Re-election of directors

To ensure that it retains an open and critical perspective, the board needs to be continually renewed. For this reason, all directors should be required to submit themselves for re-election at regular intervals. Where companies do not facilitate such a process, F&C may withhold its support from the chairman of the nomination or governance committee or, where such a committee does not exist, the chairman of the board.

Retiring directors

For unitary boards, F&C would not normally expect a retiring executive director to retain a seat on the board as a non-executive director, except in highly unusual circumstances. Particular scrutiny would apply in the case of retiring CEOs if nominated for chairman. Retiring executive directors may join the statutory auditor board as non-independent members, in which case they should only receive a retirement bonus upon resigning from the statutory audit board.

Effective functioning of boards

Board size

We recognise that, historically, Japanese company boards on the whole tend to be rather large. F&C usually considers a five to 15-member unitary board to be of appropriate size. F&C welcomes the towards smaller boards in Japan. In the case of overly large boards and in absence of a commitment to reduce board size, F&C may withhold support from one or more directors, unless clear justification has been provided explaining the need for such a large board.

Boards without significant non-executive representation

F&C believes that independent non-executive representation is valuable, providing all companies with an ideal way of involving outsiders in corporate development and responsibility. Non-executives not only bring their own expertise and fresh view to the corporation, they are also able to provide a new challenge to the insiders, thus refreshing and confirming the robustness of the corporate strategy.

In cases where the lesser of three members of the board or one third of directors are not considered to be independent, F&C will

6. Such interlocking relationships can raise concerns when there is an imbalance of power between the two directors. The most common situation is when one of the individuals is an executive on the first board, and, therefore, is evaluated and remunerated by his fellow director. Therefore, on the second board where he is expected to serve as an independent non-executive, his independence may be compromised.



normally express its concern regarding the need for a balanced board and for adequate non-executive representation by withholding support from any affiliated director standing for election.

Board evaluation

Evaluation is an important tool for improving board performance. All boards should implement an evaluation process that considers the effectiveness of the entire board, the contributions made by each member, its systems for interaction between the board and the management of the company and any areas for improvement. The nominating committee may oversee the evaluation process and should report general findings and areas for improvement publicly to shareholders. All companies should utilise professional assistance to facilitate evaluations on a periodic basis.

Board meetings & attendance

The board should meet at regular intervals to ensure effective oversight of the company. F&C regards six meetings as a minimum, and often, more frequent meetings are necessary.

Director attendance at board meetings is crucial for making valuable contributions to the board and fulfilling fiduciary duties. F&C also expects directors to attend the annual meeting, and to facilitate communication with the shareholders whom they represent. The company should disclose the attendance record of individual directors in the annual report, as well as mechanisms for shareholders to communicate directly with the board. F&C may withhold support from directors with a poor attendance record, or boards who fail to accommodate shareholder dialogue.

NED-only meetings

Where a company has a number of non-executive directors, F&C believes that it is valuable for them to be able to meet together without executives present on a regular basis and when circumstances demand. They should also have at least one meeting per year to hold an unconstrained discussion away from day-to-day business matters. NEDs should also meet on a regular basis with the company's auditors, also without management present.

Training

All directors should receive appropriate training when appointed and subsequently on regular occasions, in particular as a consequence of the board evaluation process. F&C encourages companies to develop director training plans that include educating directors on significant environmental, social and governance matters.

Role of the corporate secretary

The corporate or company secretary provides an important conduit for shareholders to address the board, and communicate with non-executive directors. The corporate secretary is accountable to the board rather than to management, and should thereafter be appointed and employed specifically by the board, rather than by the company. The board is the only body that should have the authority to dismiss the corporate secretary.

Accountability to shareholders

The board should proactively make itself available for consultation with shareholders on any substantive matter, whether or not it forms the subject of a vote, and may, to this end, appoint a senior or lead independent director to fulfil a formal liaison role. Directors should consult shareholders, particularly institutional shareholders, prior to seeking approval for resolutions at the annual general meeting (AGM) and other meetings where any resolution could be considered contentious or consultation is otherwise deemed appropriate.

Voting on board matters

- F&C will usually support directors' recommendations for board membership or ratification unless it has justified reservations.
- F&C will not support a director if it has strong concerns about the performance, integrity, independence of that individual (see "Voting on board committees" on page 7).
- F&C will abstain or vote against directors where there is insufficient biographical information provided on them.
- F&C will always vote against any proposals to elect directors by slate.
- F&C may also abstain or vote against a director if it has reservations about the overall size, structure or independence of the board. F&C will vote against affiliated directors if there is inadequate independent representation on the board.
- If no directors are standing for election, F&C may not support the approval of the company's report and accounts.

3. Board Committees

According to the Japanese Commercial Code, the majority of the members of the audit, nomination and remuneration committees should be independent of the company. F&C goes beyond the requirement of the Japanese Commercial Code, and considers a fully independent audit committee absolutely crucial. It therefore favours the three-committee board structure over the traditional statutory board model. Ethics, environment, health and safety, governance, sustainable development and corporate social responsibility (CSR) committees are desirable. Indeed, for large companies exposed to multiple social, ethical and environmental (SEE) risks, they are considered essential.

Nomination committee

A nomination committee should oversee all board and senior executive appointments. Normally it should be a committee of independent non-executive directors and the company chairman, drawing on executive advice as required. F&C prefers a fully independent committee. However, F&C recognises that in some instances, a representative of a large shareholder may be appropriate.

Audit committee

The audit of a company provides an important safeguard for shareholders and for other stakeholders that rely upon the integrity of the report and accounts as a basis for their dealings with the company. F&C believes that it is best practice to put the appointment and remuneration of external auditors to an annual shareholder vote.

Composition and principal role

- The audit committee should consist exclusively of non-executive directors, all of whom should be independent, and number at least three individuals. At least one should have recent and relevant financial experience, and all audit committee members should be financially literate. The committee should be responsible for assessing the effectiveness, independence, qualifications, expertise and resources of the external auditors and oversee the process of review and issue of the accounts.
- If there is no formal risk management committee in place, the audit committee normally should be accountable for the proper identification, management and monitoring of internal controls. This includes reviewing all significant financial and extra-financial risks. The audit committee is typically also responsible for reviewing internal business ethics systems, and ensuring that there is an effective mechanism for the confidential internal reporting of wrongdoing, whether within the company itself, or involving other parties, such as suppliers, customers, contractors or business partners. Business ethics control systems should include employee hotlines and other appropriate “whistleblowing” mechanisms related to financial fraud and any other breach of company policies and ethical codes. The audit committee may serve as the body to receive whistleblowing reports where no other acceptable body exists.
- The audit committee is also responsible for monitoring and

approving related-party transactions, and should ensure that any material related-party transactions do not disadvantage minority shareholders.

- The audit committee is also responsible for publishing the annual audit report, which is essential for investors’ ability to evaluate the overall health of the business (see section on “Reporting” on page 9). In the event of a significant restatement of accounts or material weakness in internal controls, the chairman of the audit committee, possibly in conjunction with the senior auditor, should make himself available to shareholders upon request.
- F&C recommends that the independent members of the audit committee meet on a regular basis with the company’s auditors and without company management. This may enable a better flow of information between auditors and the board.

Statutory auditor board

Where companies have chosen to keep the statutory auditor board, the majority of individual statutory auditors should be independent, and fulfil the same roles as the audit committee. The external statutory auditors should only receive a fee and not be entitled to performance-related pay. F&C does not consider this system to be as robust, since it separates the audit oversight from the core responsibility inherent in being a director.

Appointment of external auditors

- The auditors’ performance and appointment should be regularly reviewed. Where the same firm remains as auditor for a period of time, there should be a policy of regular rotation of the lead audit partner. F&C does not regard systematic rotation of audit firms as intrinsically desirable or in the best interest of shareholders. However, F&C does consider it to be desirable over the medium term to broaden the choice of auditors available to companies, and hence would encourage companies actively to consider using the broadest pool of audit firms wherever these can demonstrably meet the required standard of competence and global coverage. F&C expects that shareholders should be given the opportunity to vote on the appointment and payment of auditors.

Auditor liability

F&C recognises the disproportionate risk that joint & several liability may place upon the ‘Big 4’ audit firms. However, F&C will only consider supporting Auditor Limitation Liability Agreements in exceptional circumstances where the risk of a catastrophic and disproportionate claim can be demonstrated. In such circumstances F&C expects companies to follow the following guidance on best practice:

1. Directors must assure themselves that audit quality will be preserved and enhanced.
2. Auditor liability should be based on the principle of proportionality rather than a fixed monetary cap.
3. Shareholder approval should be sought on a forward-looking rather than retrospective basis.
4. Audit committees should ensure that a full explanation of the



reasons for putting such a resolution to shareholders is disclosed.

5. Directors should ensure that the effect of agreements throughout the group subsidiaries provide for proportionality.

Fees paid to a company's auditors in addition to audit fees

Where auditors carry out consultancy work in addition to auditing the company, this should be disclosed and the audit committee should consider whether there is a risk that the auditors' impartiality may be jeopardised. The range, nature and tendering process for any such non-audit work, should be supervised by the audit committee, whose responsibilities in this area should be fully disclosed. F&C recognises that there are certain areas of non-audit work where the company's auditors may provide valuable expertise, without compromising independence. However, very large non-audit fees, or non-audit fees in excess of audit fees, may be an indicator of compromised independence.

Risk management

The board as a whole is responsible for framing a company's risk tolerance relative to its strategy and operations, and is also responsible for monitoring the company's performance relative to defined risks. Financial, operational and reputational risks that are relevant to the company's business should be included in this oversight, including material environmental, social and ethical risks.

Depending on the size and complexity of the company, a standalone risk management committee might be warranted. F&C does not have a specific expectation that a company establish a risk management committee, but does expect that in the absence of such a committee the board can demonstrate that it is alert to, and regularly monitors, company risks on an enterprise-wide basis. A risk management committee is a common feature of large bank boards, for example, but it need not be limited to financial institutions. In some companies risk management is overseen by the audit committee. However, a standalone risk committee may enhance board effectiveness in situations where the audit committee is already very stretched. It is a healthy practice for the board as a whole to review the company's risk management as a standing item of regular board meetings.

Remuneration committee

The remuneration committee is responsible for the remuneration policy and its clear reporting as set out in the "Reporting" section on page 8. The committee is responsible for setting the remuneration of executive directors and should co-ordinate with the Group Human Resources function to develop a coherent and effective remuneration strategy throughout the company. It should consist exclusively of independent non-executive directors, at least three in number. F&C encourages all companies to enter into dialogue with their largest shareholders in developing remuneration policies.

The remuneration committee must consult with other board functions to ensure that pay mechanisms are well aligned with strategic goals and the corporation's appetite for risk. Finally, the committee should be attentive to compensation across the corporation to assure itself that management is driving risk and strategy properly and addressing other important issues linked to pay such as discrimination and glass ceilings.

Voting on board committees and their equivalents

- F&C will usually support directors' recommendations for board membership or ratification unless it has justified reservations.
- F&C will not support a director if it has strong concerns about the performance, integrity or independence of that individual.
- F&C will normally support all directors at companies with a statutory auditor board structure, but encourages the company to consider adopting the three-committee structure. Where the statutory auditor board is less than majority independent.
- Where a company has maintained the statutory auditor board structure, F&C will vote against any new non-independent statutory auditor if his appointment would result in fewer than half of the statutory auditors being independent.
- Where a company has adopted the three-committee structure, F&C will not support the appointment of directors who are not independent if their appointment would result in less than a majority of independent directors on the nomination and remuneration committees.
- F&C will not support the election of non-independent directors to the audit committee, unless the company has provided adequate justification for their involvement.
- F&C may vote against board directors who sit on committees that oversee anticorruption if company officials are charged with violations of anticorruption legislation, or if there are strong indicators that the company's internal controls relating to anticorruption have broken down.

4. Reporting

The report and accounts (a.k.a. annual report) is an important link in the chain of accountability. It should provide a full review of the achievements of the company and of standards followed during the accounting period. It should also outline the strategy for the development of the business.

The annual report and any proxy voting materials should be made available to shareholders in good time for consideration and discussion prior to the general meeting. F&C looks for a minimum of 20 working days. Such materials should be available in English and easily accessible, preferably on the company website.

Companies should have meaningful and transparent disclosure, so that investors can obtain a clear understanding of all important and relevant issues. The annual report should provide a full review of the achievements of the company and of standards followed during the accounting period. It should also outline the strategy for the development of the business and any significant factors affecting the company's future performance, including any significant social, environmental or ethical issues.

F&C favours reports that are:

- **Comprehensive**, covering the strategic direction of the business and all material issues, including any significant changes in the regulatory context and key ESG issues;
- **Balanced**, with even-handed treatment of both good and bad aspects;
- **Transparent**, with narrative text and accounting notes that provide investors with a full understanding of the circumstances underlying the reported figures. Wherever possible, companies should also consider translating the reports into English to help investors better understand management decisions;
- **Underpinned by KPIs** that drive business performance, are comparable over time, and are supported by detailed information on how they are calculated
- **Consistent and joined-up** with other company reporting, including the remuneration policy and corporate responsibility or sustainability reporting.

Directors

Adequate biographical information on directors should be provided for shareholders in advance of the annual meeting. This should include information about directors' qualifications and experience, term of office, date of first appointment, level of independence, board committee memberships and other personal and professional commitments that may influence the quality of their contribution and independence, e.g. other directorships, family and social ties, and affiliations with related companies or organisations. F&C welcomes the Company Law's requirement for proxy voting material to contain more information on the independence of directors.

Commercial Code compliance

There should be a full and clear statement of all matters relating to the application of the principles, sub-principles and provisions of the Japanese Commercial Code. The way the provisions are put into effect should be clearly discussed. F&C expects that any deviations from the Code will be clearly explained. Although this recommendation goes beyond the requirements of the Japanese Commercial Code, it follows global best practice, and ensures that shareholders are fully informed of management decisions. Companies who have a listing on a US exchange must detail how they comply with the provisions of the Sarbanes-Oxley Act.

Reporting by committees

When a company employs the three-committee structure, F&C expects adequate reporting by the principal committees so that shareholders are in a position to assess their effectiveness. Equally, F&C strongly encourages reporting on the same issues by companies with a statutory auditor board, in particular on audit matters, as this helps to improve shareholders' understanding of these companies.

Nomination committee report

The committee should report annually on its activity, in particular providing a detailed discussion of its process for identifying and appointing executive and non-executive directors and the processes it employs to ensure that members reflect an appropriate diversity of perspectives, experiences and cultural backgrounds. Where necessary, the report should include a thorough discussion of the board's view of the independence of certain members. The report should also include high-level results of the board evaluation process.

Audit committee report

The audit committee should report on its conduct during the year and, in particular, on any specific matters of judgement relating to the application of accounting principles. It should also comment on the process for ensuring independence of the auditors and for evaluating the impact of non-audit work. The audit committee report should include a narrative description of any related-party transactions, with particular reference to how these might impact the interests of minority shareholders. Where there is a statutory auditor board, it should make a similar report.

Qualified audit statement

Any qualification of the audit statement needs to be fully explained.



System of internal controls and risk management

F&C expects companies to have in place robust systems for evaluating and monitoring internal controls, including strong internal reporting and employee helpline or whistleblowing systems. The audit or risk committee is responsible for receiving the results of these systems wherever necessary. If the audit committee's purview includes risk management, the audit committee report should also address the board's oversight of enterprise-wide risks. Either as part of the audit committee report or a standalone report, the company should explain the results of the board's review of internal controls, including any identified or potential weaknesses in internal controls and how the board plans to respond to these.

Remuneration committee report

Where one has been established, the remuneration committee should report annually on its activity. In the absence of a standing remuneration committee, F&C encourages the full board to disclose the company's remuneration policy in the annual report and accounts. The policy should include disclosure of individual directors' fees, a break-down of cash and equity compensation, and a discussion of how the board uses fixed and variable pay to drive performance. F&C encourages companies to adopt best practice by putting their remuneration policies to an advisory shareholder vote.

Corporate responsibility or sustainability committee report

F&C encourages companies to report on any significant social, environmental or ethical risks and opportunities in their annual reports as well as the systems in place to manage these issues. This may be supported by more detailed disclosure, as appropriate, in a separate corporate responsibility or sustainability report (see Appendix 1).

Business ethics and internal controls

The board as a whole is responsible for ensuring that the company has a "governance culture" that includes a commitment to business ethics and a robust system of internal controls. F&C expects all companies to publish an employee code of business ethics and to introduce business ethics management systems to ensure that good practices are embedded in the business. (See Appendix 2: Business Ethics). The board also should state, in the annual report, that they have reviewed the system of internal controls, including a proper evaluation of all risk factors and their management. F&C strongly recommends that this report also addresses non-traditional financial risks such as social, environmental and ethical issues. Under the new Financial Instruments and Exchange Law, listed companies and their subsidiaries will be required to file their first management evaluation of internal control reports by end of March 2009. F&C is concerned that the auditors will not be required to publish an opinion on the actual effectiveness of internal controls. Instead, they may only be required to report on management's evaluation of the controls. F&C strongly encourages companies to go further and provide additional assurance as to the effectiveness of internal controls.

Foreign Listings

Companies who have a listing on a US exchange must detail how they comply with the provisions of the Sarbanes-Oxley Act. Companies with a Standard listing on the London Stock Exchange should seek, wherever practicable, to comply with the corporate governance standards embodied in the UK Combined Code of Corporate Governance, highlighting and explaining the reasons for specific areas of non-compliance. Where companies establish a secondary listing in any other market, they should explain any deviations from local governance practice where these exceed the governance requirement dictated by their primary listing.

Shareholder resolutions

F&C encourages companies to engage in constructive dialogue with shareholders and other external stakeholders, to obviate the need for extraneous shareholder proposals. Where engagement is unsuccessful, F&C supports shareholders' right to submit a shareholder proposal for consideration by all investors. In these instances, companies should behave respectfully, by communicating promptly and fully with shareholders and refraining from obstructing the process including the placing of onerous limits on the text of the proposal. The board should provide a full and reasoned response to any shareholder proposal on the ballot. F&C considers all shareholder resolutions put forward and votes in accordance with its understanding of the long-term benefit to shareholders.

Voting on reporting

- F&C believes that companies' report and accounts should be put to shareholders for a vote. F&C will generally approve the report and accounts, unless it has significant concerns as to their completeness and accuracy.
- F&C will vote against audit committee or statutory board members who are standing for re-election where it has reason to believe that a company's internal controls are inadequate or has other concerns related to financial accounting or the company's appointed auditors.
- F&C may vote against the company's report and accounts or against the company's auditors in cases where auditor's fees are not reported or in cases where there have been material misstatements.

5. Remuneration

The Japanese Commercial Code currently has no requirements concerning the disclosure of individual remuneration packages. The 2005 consolidated Company Law calls for separate disclosure and approval of executive and non-executive directors' remuneration. Levels of remuneration and other incentives should be adequate to recruit, incentivise and retain appropriate staff, reflecting the work carried out and the executives' contribution to the company. No director should be involved in setting his own remuneration. F&C does not set guidelines for levels of remuneration beyond the principles mentioned below. In line with emerging global best practice, the remuneration of all directors, including all non-executive and executive directors, should be disclosed individually. F&C looks for banded disclosure of remuneration paid to senior executives below board level. This enables shareholders better to understand the company's remuneration strategy.

Relationship to strategy and risk

F&C expects companies to demonstrate the alignment of their remuneration policy with their overall business strategy and planning. Performance metrics should relate to the company's articulated strategy and risk tolerance. Targets should be constructed to align executive incentives to the interests of long-term shareholders, and should not create incentives for executives to undertake short-term risks that might imperil longer-term performance.

Share schemes

Share schemes should be used to incentivise, rather than strictly to remunerate, executives, and should be tied to performance conditions with a minimum vesting period of three years. F&C encourages companies to introduce better weighted remuneration packages that include performance-based long-term incentives.

All share schemes should be clearly disclosed and subject to shareholder approval. F&C believes that strict guidelines should be observed with regard to the issue, or potential issue, of shares for incentive schemes, both as to the proportion of shares issued and as to the rate at which these are issued each year. This is to reduce the dilutive impact on shareholders. Normally, F&C would expect no more than a total of 10% of a company's equity to be used for all share schemes within a 10-year period, with no more than 5% being available for executive schemes during this period. Treasury shares re-issued should be included within these limits. This is largely incorporated in Japanese law because, according to the Japanese Commercial Code, stock options may be issued in connection with no more than 10% of the company's outstanding shares.

F&C prefers the use of performance shares – grants of free shares, vesting only when stretching performance conditions are achieved – over stock options for the purpose of incentivisation. It recognises that options can be useful at times. However, F&C always expects to see meaningful performance conditions attached to the grants. F&C's voting decisions will be influenced by the level of transparency displayed by the company in disclosing the details of its schemes.

F&C encourages the inclusion of social, environmental and other non-traditional financial goals for performance bonus payments where these factors have a significant impact on the company's performance. F&C also expects a discussion of the process undertaken by the company to identify such factors and an explanation as to why it considers these factors to be relevant. If the company chooses not to include any such factors, the company should explain the reasons for this.

Claw Back Policies

The remuneration committee should maintain authority to withhold or reclaim (i.e. 'claw back') all or part of performance-based pay from executives in cases where it deems it appropriate. This might occur following a significant restatement of accounts, where previously granted awards were paid on the basis of inaccurate figures or where the long-term outcomes of a specific strategy result in significant value destruction for shareholders.

In particular, where representations that executives made to the audit committee about the integrity of controls have been revealed to be inaccurate, or where executives have failed to exercise due caution in the discharge of their duties, the company should consider seeking the reclamation of performance awards.

Clawback policies may also be supplemented with extended deferral periods for share and bonus plans. The potential liability in a clawback arrangement may be scaled back over time to reflect evidence of sustained performance.

Retirement and bonus payments

F&C welcomes the disclosure of the total bonus and retirement payments to directors and statutory auditors. Although this is not a requirement of the Japanese Commercial Code, F&C further encourages disclosure of individual payments. F&C cannot support payment of undisclosed sums to individual directors and statutory auditors. In the case of retirement bonuses, F&C believes that these should be paid only to former employees of the company, and only in cases where the employee genuinely retires and does not move to another role with the company, e.g. that of statutory auditor.

F&C welcomes the move taken by several companies to abolish the retirement bonus system, and recommends that other companies follow this move towards best practice. F&C would normally approve initial payments made to compensate for the abolishment of this system. F&C welcomes the recent shift from a retirement bonus system to an employee pension system and invites companies to contact it to discuss plans for making this shift, including the financial impact of such changes.



Employee ownership

Widespread employee ownership can positively contribute to shareholder value, as it further aligns employees' interests with shareholders'. Such devices should not be instituted as anti-takeover devices, and should be included within company-wide dilution limits. While F&C generally supports broad-based stock option plans, employee discounts should not exceed 20% on a fixed date, the company should not extend loans to purchase options, and options should not be re-priced without shareholder approval. Non-executive directors and external statutory auditors should not be entitled to options and therefore should not be included in any such schemes.

Remuneration report

F&C considers it best practice to produce a remuneration report, which should cover policy and practices, and be clear and explicit, in order to inform shareholders. Although not requested by the Japanese Commercial Code, F&C recommends that both the remuneration policy and the report be put to a shareholder vote. In order to avoid conflicts with shareholders where new share schemes are being introduced, F&C strongly recommends that companies consult with their principal shareholders prior to submitting remuneration plans to a vote. Companies should also consult with shareholders where significant changes are intended to any elements of the policy.

Voting on remuneration

- F&C will consider all votes relating to remuneration on their merits, and vote against a policy or individual scheme where it believes that these are not in the best interests of the company and its shareholders.
- F&C assesses remuneration packages to ensure that there is adequate balance between remuneration and incentivisation, and may choose not to support management if this balance is not achieved. F&C may also vote against a remuneration package if the overall amount appears excessive, unless clear justification is provided.
- F&C will vote against schemes that could lead to excessive dilution, unless there are extenuating circumstances.
- F&C will vote against all employee share plans that include excessive discounts, loans to exercise options, or allow for re-pricing or re-testing.
- F&C will support the abolishment of retirement bonuses and the introduction of annual bonus systems.
- F&C will look favourably on any company that puts its remuneration policy to a vote. While F&C reserves the right to vote against remuneration policies that have clear deficiencies, F&C will also endeavour to provide constructive support to companies that voluntarily submit their remuneration policy to such a vote. In all but extreme cases, F&C will tend to vote in support of the policy even if the content does not meet best practice standards, but will send written comments to the board.
- F&C may oppose the re-election of the chairman or members of the remuneration committee if the company lacks a far-reaching clawback policy despite recent material restatements.

6. Shareholder rights

Liaison with shareholders

Companies should be ready, where practicable, to enter into dialogue with institutional shareholders based on an understanding of shared objectives. They should be proactive in making sure important news is imparted, subject to appropriate inside information procedures, and should react helpfully to investor questions. In investment meetings with shareholders, companies should be prepared to address relevant corporate governance, environmental and social issues.

Issuance of Shares

F&C respects a company's right to issue shares to raise capital. However, share issuance should be strictly limited to that which is necessary to maintain business operations and drive forward company strategy. F&C will not support requests to increase authorised share capital that exceed one-third of existing capital, unless specific justification has been provided (e.g. to complete an acquisition or undertake a stock split).

Pre-emption rights

Although the Japanese Commercial Code does not make any specific reference to this question, F&C believes that pre-emption rights for existing shareholders are essential as protection from dilution from the issuance of new shares. F&C would expect any share issuance without pre-emption rights to be limited to 5% on an annual basis.

We encourage companies to consider alternative means of raising capital which do not result in excessive dilution for existing shareholders. In circumstances where private placements are deemed to be the most efficient means of raising finances, management should fully disclose the rationale for the decision including the intended use of the funds, the identity of the third party and the terms of the agreement.

In addition, and in line with the recommendations of the Japan White Paper, F&C considers the appropriate discount at which any new shares are offered to be 5% below current market price, and will vote against requests that exceed these levels.

Share repurchase

F&C expects companies to repurchase shares in the market when it is advantageous for the company and its shareholders. Authority to repurchase shares should be subject to shareholder approval, be limited to about one year, and not exceed 15% of the issued equity. Any share repurchase must benefit all holders on equal terms taking account of options adjustment.

In line with the Japanese Commercial Code, many Japanese companies seek to amend their articles of association to eliminate the need to submit share repurchase requests to a shareholder vote. F&C believes that shareholders should have the right to approve all capital-related activity, such as share repurchases, on an annual basis. F&C opposes amendments to the articles of association to eliminate this right and urges companies that have

already obtained such authority voluntarily to submit all capital-related activities to a shareholder vote.

Dividend payments

F&C will not support resolutions seeking to grant the board authority to approve dividend payments by amending their articles of association. F&C urges companies that have already obtained such authority, to voluntarily submit all profit-related activities to a shareholder vote.

Voting rights

F&C favours a share structure that gives all shares equal voting rights. It may choose to withhold support for the issue of shares with impaired or enhanced voting rights.

Voting thresholds

F&C will not support amendments to the articles seeking to raise the threshold for the dismissal of directors beyond a simple majority to a higher majority voting requirement. Equally, F&C will study each proposal for re-organisation carefully and will not normally support any request to raise the required majority beyond two-thirds.

Mergers and acquisitions, spin-offs and other corporate restructuring

Bids and corporate restructuring are important as a means to maintain an efficient and competitive environment. However, some bids do not add to shareholder value, so in contested takeover bids, F&C will seek to discuss matters with management. F&C expects boards to conduct thorough due diligence prior to pursuing any merger or acquisition and to seek to maximise shareholder value in any deal. F&C will normally support incumbent management, provided the financial terms, synergistic benefits, and management quality are sound.

F&C considers social and environmental risk implications of any corporate activity as part of its assessment, particularly in high-impact industries. It likewise expects the board to evaluate any potential social, environmental or ethical risks or liabilities of any business combination. F&C expects companies to take appropriate consultative measures with employees and communities affected by corporate restructuring.

Anti-takeover devices

F&C regards artificial devices to deter bids, known as "poison pills," as inappropriate and inefficient, unless they are strictly controlled by a fully-independent committee, of very limited duration and subject to a shareholder vote. In addition, any subsequent changes to the plan should also be subject to a shareholder vote. In all cases, shareholders should be provided with full information about the proposed plan and any changes, and given sufficient time to deliberate and vote. F&C will not support capital issuance or other arrangements that could potentially act as a deterrent to takeovers, and will normally vote against any such proposals.



Cross Shareholdings

F&C recognises that cross shareholdings can serve valuable strategic objectives and can contribute towards enhancing long-term shareholder value. However, where such holdings do not serve to further the commercial interests of the company or fail to achieve minimum risk-adjusted investment returns, management should seek to dispose of such assets and utilise its capital more efficiently. Where suitable investment opportunities are unavailable management should consider returning cash to shareholders in preference to retaining assets on the balance sheet.

In the spirit of transparency we strongly encourage management to disclose the full extent of its crossholdings, including the economic and strategic objectives of each position and where appropriate, targeted and actual investment returns relative to the company's cost of capital. Management should be prepared to engage in dialogue with investors to demonstrate the value created through its cross-holdings.

F&C does not support the use of cross-holdings as a means to insulate the company from the possibility of an unsolicited takeover. We consider the best defence against takeover to be strong

management, efficient utilisation of assets and a clear long-term strategy. Consequently we do not support the adoption of any measures that may act as an anti-takeover device as this may impede the creation of shareholder value.

Voting on shareholder rights

- F&C will vote against the issuance of shares with unequal voting rights unless it is in the long-term interests of all shareholders.
- Where a company seeks authority to issue shares beyond defined limits, F&C will vote against.
- F&C always votes against proposals to authorise the board to approve share repurchases without prior shareholder approval.
- F&C always votes against proposals to authorise the board to approve dividend payments without prior shareholder approval.
- F&C will support requests to approve anti-takeover devices only if they meet all of the above criteria.

7. Voting matters

Annual general meetings

There should be an annual physical meeting of the shareholders, and all the directors of the company should attend. F&C encourages companies to avoid holding meetings on the same few days as many other companies, as is common in Japan. A change of year end is one way in which some companies have achieved this. Web-based transmission of the meeting is encouraged.

Capital Management

Japanese companies should ensure balance sheets are managed efficiently with a view to unlocking value to shareholder. F&C will not support the accumulation of cash and liquid tradable assets unless clear acquisition targets or capital intensive growth strategies have been identified with a sensible return on equity targets.

Management should seek to return cash to shareholders when balance sheets are considered over-inflated; this can be achieved through progressive dividend policies and the execution of share buy-back programmes.

Record dates

F&C recommends that a record date be set five working days prior to company general meetings for custodians and registrars to establish clearly those shareholders eligible to vote. This will give time for all relevant formalities to be completed and serves the same

purpose as shareblocking without the disruptions noted above.

When the record date is set far in advance, there is a significant risk that there will have been a substantial change in the shareholders of the company by the time of the meeting.

Vote Disclosure

F&C expects companies to disclose the voting results of their general meetings, both at the meeting and on their websites, with a detailed breakdown of votes for and against, as well as abstentions. F&C also believes that the Minutes of the Meeting are an important link in the chain of accountability and should be published promptly. It will not support any amendments seeking to delete the requirement for such Minutes.

F&C believes that companies have a right to know how their shareholders have voted, and therefore writes to all companies to explain any cases of votes against management, abstentions, or votes in favour that nevertheless were the subject of concerns.

In the spirit of transparency, F&C also makes available to both its institutional and retail fund customers a comprehensive record of its voting by publishing its aggregated voting record on its website on a monthly basis. Companies held in all F&C retail or institutional funds may also check their results on this web page. A summary of F&C's voting record can be found in its quarterly Responsible Engagement

Overlay (**reo**[®]) report, its annual corporate governance report and its annual Corporate Responsibility report.⁷

Stocklending

Stocklending is a widespread market practice involving the sale and contractually pre-agreed repurchase of a stock, collateralized by a basket of securities. Insofar as title to the stock passes from the “lender” to the “borrower”, this transaction is not, in fact, a loan, and therefore means that the voting right that attaches to the underlying stock cannot be readily detached and retained by the lender.

Stocklending is an important factor in preserving the liquidity of markets and in facilitating hedging strategies; it also provides investors with a significant additional return on their investments because the sale-repurchase transaction includes a profit margin. Importantly, however, if the term of the “loan” coincides with an annual or extraordinary general meeting, the transfer of the voting right impairs the ability of the underlying shareowner to exercise his voting rights. In rare instances, this has led to abuse, where borrowers have deliberately entered into transactions to sway the outcome of a shareholder vote without any intention of owning the stock long-term.

F&C considers that the balance to be struck between stocklending and voting is a matter for individual decision by clients. For those clients wishing to be involved in stocklending, F&C’s policy is to accommodate this while retaining a minimum shareholding at all times, thereby ensuring that a vote is cast and any concerns are expressed directly through a letter to the company. Where significant voting issues arise, F&C will stop any further lending of stock, and, if necessary, will seek, on a reasonable-efforts basis, to recall all lent stock over the voting period. F&C also accommodates clients who do not wish to engage in stocklending at all, should they prefer to vote all stocks at all times.⁸

Voting systems

F&C believes that it is important that shareholders be provided with the opportunity to appoint a reasonable person as a proxy to vote their shares, either in person or electronically. F&C encourages the introduction of electronic voting systems that are accurate and provide an effective audit trail of votes cast.

Bundled resolutions

Resolutions put to company meetings should cover single issues, or issues that are clearly interdependent. Any other practice potentially reduces the value of votes, and can lead to opposition to otherwise acceptable proposals. F&C will normally oppose resolutions that contain such inappropriately bundled provisions.

Any other business

F&C expects to vote on resolutions the contents of which have been made clear to shareholders and are in the interests of the company and its shareholders. Where a resolution invites shareholders to vote on an “any other business” resolution, F&C will systematically vote against.

Shareholder proposals

F&C considers all shareholder resolutions that appear on the ballot and votes in accordance with its understanding of the long-term benefit to shareholders. In circumstances where F&C has serious concerns about a company’s governance, including environmental, social and ethical issues, and has been unsuccessful in establishing a fruitful dialogue, it may itself put forward resolutions to invite other shareholders to support calls for the adoption of better practices.

Amendments to articles

F&C will support all necessary and appropriate amendments to articles after due consideration. F&C does not support amendments seeking to give the board the authority to act without prior consultation of shareholders. Equally, F&C does not support amendments asking to eliminate Minutes of the Meeting.

Political and charitable donations

F&C welcomes the opportunity to vote on company donations, if material. F&C supports charitable acts at an appropriate level, especially where an active donations policy supports the company’s engagement with its local or wider community. With respect to donations to political parties or to organisations closely associated with political parties, F&C considers that these are inappropriate and should be strictly avoided. However, in countries where the practice is widespread and deeply rooted, companies should at the very least submit their political donations policy and the past year’s donations record to a shareholder vote.⁹

Other voting matters

- F&C will oppose bundled resolutions where unrelated items are presented for shareholder approval in a single vote.
- F&C will evaluate amendments to the articles on a case-by-case basis and will not support amendments that reduce shareholders rights.
- F&C votes on any shareholder resolutions in accordance with its understanding of the long-term benefit to shareholders.
- F&C will oppose dividend payments if the balance sheet is considered to be over-inflated.

7. Available on <http://www.fandc.com/governance>.

8. This applies to funds directly managed by F&C. For clients of F&C’s responsible engagement overlay service (**reo**[®]) service in cases where F&C does not manage the fund - clients will need to coordinate with their fund managers with regard to stocklending policies and practices.

9. For further details on F&C’s policy with regard to political lobbying and donations, click on Public Policy at <http://www.fandc.com/public-policy>



Appendix 1: Sustainability Reporting and Disclosure

F&C expects high standards of transparency from the companies in which it invests. This should include a narrative account within the annual report about the trends and factors affecting the performance and future development of the business. So-called “narrative reporting” is an important mechanism for improving the quality of dialogue between companies and their owners, covering the full range of factors underpinning long-term profitability. This includes areas that have not been traditionally covered in annual reports such as material

environmental, social and governance (ESG) issues. In high-impact sectors, we also expect companies to publish a comprehensive sustainability or corporate social responsibility report that provides more detailed information for a wider group of stakeholders such as employees, local communities, non-profit organisations, and government representatives. While F&C recognises that ESG reporting will vary across geography and sector, F&C has identified some general best practice guidelines, set out below.

F&C's 12 Steps to Best Practice ESG Reporting

Basic

- Identify significant ESG risks and opportunities for the business
- Establish and explain board accountability for ESG issues
- Set out policies for significant ESG issues and explain how they are implemented and monitored
- Establish and disclose targets and Key Performance Indicators for significant ESG issues covering global operations
- Describe systems for training board members and staff on ESG issues
- Report on performance against policies

Best practice

- Explain how ESG policies link to key operational and financial drivers
- Describe procedures for consulting key stakeholders and provide feedback on the range of views
- Discuss challenges and set-backs as well as success stories
- Describe procedures for verifying data including external verification
- Take account of widely-accepted reporting standards such as the Global Reporting Initiative
- Describe how ESG objectives are embedded into the corporate culture, including how they are reflected in remuneration policies and other performance management tools

Appendix 2: Business Ethics & Internal Controls

Codes of business ethics provide an important foundation for underpinning sound business practices and communicating expectations to employees. F&C encourages companies to go farther and establish a code of ethics that applies to all employees.

Codes of ethics will also be supported by strong internal controls, including compliance monitoring and confidential helplines (a.k.a. whistleblower systems) so that the company can identify any breaches, and avoid associated fines, liabilities and reputational damage. The board, typically the audit committee, is then responsible for reviewing internal controls, including compliance systems and whistleblower reports, on a regular basis.

F&C's Indicators for Managing Business Ethics

F&C expects all companies to establish an employee code of ethics and to develop reasonable compliance monitoring and confidential helplines or whistleblower systems to implement these policies. F&C

has identified the following as indicators of good practice in managing business ethics:

- Robust codes will cover: anti-bribery and corruption, insider trading, conflicts of interest, use of company assets and privacy and confidentiality.
- Internal controls will include: compliance monitoring, a confidential helpline through which questions can be raised and concerns reported, and regular review of the code
- The board will receive a report, at least annually, of the results of compliance monitoring and whistleblower systems. A review for material breaches should take place on a quarterly basis.
- F&C encourages companies to publish their code of ethics on the company website, and to report aggregated results of compliance breaches or whistleblower reports in the annual report and accounts.

Winning gold with F&C

Delivering highly effective investment strategies is just one part of the service we provide. As principled asset managers, we are determined to lead our industry in all aspects of our business.

In 2009 F&C were voted winners of the 'Gold Standard' in the Fund Management category for the fourth year in succession. Only a few companies have been privileged enough to win a Gold Standard award, and as such, this is an exceptional achievement. The Gold Standard Awards aim to identify financial services companies that excel not just in service but in five key areas important to consumers of financial products and services:

Financial strength

Ability to meet and exceed customer expectations

Capability

Outstanding expertise and aptitude as a fund manager

Service

Ability to maintain and grow an effective post-sales relationship

Fair value

Assessing whether customers receive great value for money

Trust

Ability to instil confidence in consumers

As a result, the Gold Standards are one of the hardest, most sought after awards in the financial market place.



WINNER



Products

F&C offers a wide range of investment opportunities for pension funds, charities, financial institutions, corporations and other organisations. We offer segregated and pooled portfolio management through a range of onshore and offshore vehicles. These cover developed and emerging markets in equity, bond, cash and property funds.

Please contact us for further details or visit our website at www.fandc.com

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Important information. All data is as at 31 December 2009, unless otherwise stated.

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