



## THE UK STEWARDSHIP CODE – STATEMENT OF COMPLIANCE BY F&C INVESTMENTS

NOVEMBER 2014

F&C Asset Management plc is the parent company of the F&C Group. The F&C Group is wholly owned by BMO Global Asset Management (Europe) Limited, which is itself a wholly owned subsidiary of the Bank of Montreal. F&C is a leading diversified multi-specialist investment management group with over £80bn<sup>1</sup> of assets under management and a heritage spanning more than 140 years. Alongside its core institutionally focused business, the Group includes F&C REIT, a pure real-estate manager. The group is also an active shareholder with a leading franchise in responsible investment.

F&C has long been an active voice in support of robust corporate governance standards and environmental, social and business ethics practices for companies in all jurisdictions where F&C invests. As an active investor for many years, F&C believes that robust engagement and voting by institutional investors is critical to the health of financial markets and long-term value creation. This is particularly so in principles-based, “comply or explain” regulatory regimes, whose effectiveness requires active involvement by investors to hold boards of listed companies to account for the fulfilment of their stewardship responsibilities.

F&C supports the Stewardship Code as published in 2010 and updated in 2012 and applies principles of the Code to our equity holdings in the UK and overseas. This document serves to update F&C’s 2013 statement. We welcome further dialogue with the FRC, as required, to provide further detail on F&C’s compliance with the principles of the Code.

### PRINCIPLE 1

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

#### FRC Guidance on Principle 1:

The disclosure should include:

- Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.
- The policy should disclose how the institutional investor applies stewardship with the aim of enhancing and protecting the value for the ultimate beneficiary or client.
- The statement should reflect the institutional investor’s activities within the investment chain, as well as the responsibilities that

arise from those activities. In particular, the stewardship responsibilities of those whose primary activities are related to asset ownership may be different from those whose primary activities are related to asset management or other investment-related services.

- Where activities are outsourced, the statement should explain how this is compatible with the proper exercise of the institutional investor’s stewardship responsibilities and what steps the investor has taken to ensure that they are carried out in a manner consistent with the approach to stewardship set out in the statement.
- The disclosure should describe arrangements for integrating stewardship within the wider investment process.

#### F&C Position on Principle 1:

F&C has long published a Responsible Ownership Policy<sup>2</sup> which outlines how it discharges its stewardship responsibilities to enhance sustainable investment performance over the long term.

This policy speaks to the following points of responsible ownership:

- Voting in line with its Global Corporate Governance Guidelines across global holdings;
- Communicating its concerns to companies wherever its votes do not support directors’ recommendations;
- Engaging in on-going dialogue with companies on significant matters, including strategy, performance, risk, capital structure and corporate governance so as to encourage good practice;
- Integrating analysis of environmental, social and governance (ESG) factors into its investment process;
- Reporting on its votes and engagement to clients and, in the case of F&C retail funds, to the wider public.

F&C publishes its Global Corporate Governance Guidelines to guide its proxy voting in a range of jurisdictions<sup>3</sup>. These overarching principles inform our voting decisions and, combined with local market knowledge, allow F&C to vote in an informed way, reflecting market specificities. The Guidelines are updated annually and reviewed by F&C’s Corporate Governance Committee. This Committee, comprised of senior F&C managers, is responsible for setting F&C’s policies on corporate governance issues and defining F&C’s approach to stewardship activities including, where appropriate, social and environmental issues, as well as financial and fiduciary matters. The Committee ensures that F&C has clear documented guidelines in place for how it votes shares in invested companies.

<sup>1</sup> As at 31st March 2014 <sup>2</sup> <http://www.fandc.com/corporate/about-us/responsible-investment/>

<sup>3</sup> The policies on Corporate Governance are employed by the F&C Group with the following exceptions: F&C Portugal S.A. (a Portuguese regulated investment manager); F&C REIT Property Asset Management plc (a UK regulated firm which manages physical property); Thames River Capital LLP and Thames River Multi-Capital LLP. In the case of Thames River Capital LLP and Thames River Multi-Capital LLP, both have developed their own statement on stewardship which is available upon request.



F&C votes using ISS' electronic proxy voting platform. F&C also subscribes to the voting advisory services, including both ISS and IVIS. These voting services are used as supporting research in the voting process.

F&C's fund managers and the Governance and Sustainable Investment (GSI) team engage with investee companies working closely to coordinate company engagements and outreach. The integration of ESG factors into the wider investment process is bolstered by F&C's proprietary ESG risk tool developed by the GSI team to facilitate systematic consideration of ESG risks and factors in the investment analysis. The GSI team members often attend company meetings together with fund managers and hold regular consultation and dialogue with fund managers on corporate governance, environmental, social and business ethics practices, corporate actions or strategic, operational and financial developments at companies in F&C's investment holdings.

## PRINCIPLE 2

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

### FRC Guidance on Principle 2:

- An institutional investor's duty is to act in the interests of its clients and/or beneficiaries.
- Conflicts of interest will inevitably arise from time to time, which may include when voting on matters affecting a parent company or client.
- Institutional investors should put in place, maintain and publicly disclose a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of their client or beneficiary first. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.

### F&C Position on Principle 2:

F&C recognises that it is an institutional investor's duty to act in the interests of all clients and/or beneficiaries when considering matters such as engagement and voting. We support the Code's guidance that institutional investors should put in place and maintain a policy for managing conflicts of interest.

F&C has a detailed Conflict of Interest Policy, applicable to all staff, outlining how conflicts of interest are managed. The policy identifies areas where potential conflicts might exist, and details aspects of prevention, management, disclosure and how employees might report potential conflicts internally. This policy is reviewed at least annually and is accessible by staff through the company intranet.

F&C also has developed a comprehensive conflicts of interest policy specifically focused on its responsible investment activities which is

publicly accessible on F&C's website: <http://www.fandc.com/corporate/about-us/responsible-investment>. F&C's Corporate Governance Committee oversees the conflicts of interest policy. Furthermore, F&C's Board of Directors is committed to safeguarding the integrity and independence of the GSI team's involvement in analysing, voting and engaging companies on ESG issues. The F&C Directors' Guide specifically states: "The Board recognises and supports the Company's leadership in the area of responsible investment. The Company's actions in this area (active share voting and engagement) are conducted independently and free of interference from the Board and senior management of the Company and in line with the published Corporate Governance Policies and Guidelines approved by the Corporate Governance Committee."

Aspects of F&C's conflicts of interest policy of relevance to investor stewardship are as follows:

- F&C manages all portfolios in accordance with each client's investment agreement, mandate guidelines and restrictions. Any potential conflicts which arise are managed using Chinese walls, appropriate segregation of duties and management oversight.
- F&C only undertakes stocklending with the prior approval from the client and in accordance with the client's investment management agreement, or appropriate supplementary legal documentation.
- When serving clients with different responsible investment objectives, we seek to ensure that no matter what responsible investment objectives our clients have (exclusions, engagement or integrated ESG analysis), we understand these and avoid privileging one client's objectives over that of another. We conduct regular consultation with **reo**® clients to understand and prioritise different engagement activities.
- In voting activities, we will vote in line with F&C's published Corporate Governance Guidelines unless we receive specific instructions from a client. In the event that a client wishes to vote in a manner that would diverge from F&C's standard approach, we will only vote the shares held by that client as requested, and will make clear that those instructions reflect the specific desires of the client. The GSI team takes the final voting decision for **reo**® client holdings, which might differ from voting decisions made for F&C's internal funds.
- In terms of voting and engagement F&C also considers potential conflicts of interest where F&C is an interested party. This includes the Bank of Montreal – F&C's listed parent company, and any listed investment fund offered by a member of BMO Financial Group held within F&C clients' portfolios. F&C's voting on client shareholdings in the Bank of Montreal and listed investment funds offered by a member of BMO Financial Group, is determined by ISS recommendations based on ISS' interpretation of F&C's voting policies. F&C does not override the ISS recommendation unless F&C receives specific instructions from the beneficial owner of these securities - namely the underlying clients who are



not connected to F&C. This can result in F&C's votes not supporting specific resolutions at shareholder meetings where members of BMO Financial Group have an interest.

- F&C treats all companies equally in engagement and voting activities. The GSI team uses a proprietary ESG Risk Tool to assist in identifying engagement priorities and objectives, and acts independently of F&C client servicing teams, the F&C Board and the wider BMO Financial Group. We make clear to corporate pension fund clients or clients who are themselves corporates that we must treat all companies equally in engagement and voting activities, and that our position cannot be altered due to a commercial relationship that a pension fund client or a corporate client may have with a company identified for engagement.
- Safeguards are in place to ensure that **reo**<sup>®</sup> clients have identical access to engagement data as do F&C fund managers, and that confidential external client data are kept strictly out of reach of F&C fund managers. **reo**<sup>®</sup> engagement reports are distributed simultaneously to all clients, including overlay clients and in-house managed funds.

### PRINCIPLE 3

Institutional investors should monitor their investee companies.

#### FRC Guidance on Principle 3:

- Effective monitoring is an essential component of stewardship. It should take place regularly and be checked periodically for effectiveness.
- When monitoring companies, institutional investors should seek to:
  - keep abreast of the company's performance;
  - keep abreast of developments, both internal and external to the company, that drive the company's value and risks;
  - satisfy themselves that the company's leadership is effective;
  - satisfy themselves that the company's board and committees adhere to the spirit of the UK Corporate Governance Code, including through meetings with the chairman and other board members;
  - consider the quality of the company's reporting; and
  - attend the General Meetings of companies in which they have a major holding, where appropriate and practicable.
- Institutional investors should consider carefully explanations given for departure from the UK Corporate Governance Code

and make reasoned judgements in each case. They should give a timely explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position.

- Institutional investors should endeavour to identify at an early stage issues that may result in a significant loss in investment value. If they have concerns, they should seek to ensure that the appropriate members of the investee company's board or management are made aware.
- Institutional investors may or may not wish to be made insiders. An institutional investor who may be willing to become an insider should indicate in its stewardship statement the willingness to do so, and the mechanism by which this could be done.
- Institutional investors will expect investee companies and their advisers to ensure that information that could affect their ability to deal in the shares of the company concerned is not conveyed to them without their prior agreement.

#### F&C Position on Principle 3:

- F&C's fund managers and GSI team actively monitor investee companies, including performance and internal and external developments that drive the company's value and risk. Among other things, this includes regular meetings by F&C's fund managers with management to discuss strategic, financial and operational matters, voting on F&C's holdings, and engaging with Boards and management of companies, when relevant, on governance, social, ethical and environmental themes.
- Pre-AGM review of the company's governance and performance is an important element of the regular assessment of the effectiveness of the company's leadership. F&C's UK voting policies are consistent with the UK Corporate Governance Code and, accordingly, F&C encourages UK listed companies to adhere to the spirit of the Code. When a company chooses not to comply with the Code, F&C will consider the merits of the company's explanation and may seek further discussions with the chairmen and other board members prior to making judgement. In cases where F&C is unsatisfied with the explanation and regards the departure as material, F&C will follow up with the company through proxy voting and engagement as appropriate. Similar approach is used in relation to F&C's overseas holdings where we take into consideration market specificities and governance best practice.
- F&C's voting database maintains a record of all votes and reasons for voting against management or for voting with management in contentious situations. This voting record is in the public domain on F&C's website<sup>4</sup>. F&C also communicates to the senior management of investee companies with regard to specific resolutions that F&C has voted against in company general and extraordinary meetings to ensure that the company's board is aware of F&C's specific concerns.

<sup>4</sup> <http://vds.issproxy.com/SearchPage.php?CustomerID=3660>



- F&C uses a range of research tools that help to prioritise and facilitate the monitoring and analysis of companies in F&C's portfolio from financial, governance and sustainability perspective. Service providers to F&C's GSI team in this regard include ISS, IVIS, Sustainalytics and GMI. These research tools, along with broker analysis and other sources of information, as well as its own direct analysis of the companies in its investment holdings, are used to identify concerns in the areas of strategy, performance, governance or management's approach to the risks arising from social, environmental or business ethics matters, and determine priorities for further engagement and outreach. This is a standard operating practice for F&C, and this resulted in focused engagement on 716 companies globally in 2013. This activity included 66 meetings with companies at Board level.
- Attending company general meetings is not a normal part of F&C's engagement, as F&C conducts most of its engagement with companies on a 1:1 basis - or collectively with other investors. However F&C will attend a company's general meeting in cases where F&C judges this to be the most effective means of communicating to the company.

#### PRINCIPLE 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

##### **FRC Guidance on Principle 4:**

Institutional investors should set out the circumstances when they will actively intervene and regularly assess the outcomes of doing so. Intervention should be considered regardless of whether an active or passive investment policy is followed. In addition, being underweight is not, of itself, a reason for not intervening. Instances when institutional investors may want to intervene include when they have concerns about the company's strategy and performance, its governance or its approach to the risks arising from social and environmental matters.

Initial discussions should take place on a confidential basis. However, if companies do not respond constructively when institutional investors intervene, then institutional investors will consider whether to escalate their action, for example, by:

- holding additional meetings with management specifically to discuss concerns;
- expressing concerns through the company's advisers;
- meeting with the chairman or other board members;
- intervening jointly with other institutions on particular issues;
- making a public statement in advance of General Meetings;
- submitting resolutions at General Meetings; and

- requisitioning a General Meeting, in some cases proposing to change board membership.

##### **F&C Position on Principle 4:**

- F&C makes use of the research tools outlined above in the response on Principle 3 to flag anomalies or breaches of good business or practices that might call for engagement or intervention. F&C will engage companies in different ways (from outreach by email, to letter, to one-to-one meetings), and at different levels (board, senior management, operational experts), depending on our objectives.
- Where direct engagement does not progress as expected, we may consider other options, including voting against resolutions at general meetings, collaborative engagement with other institutions and filing/co-filing resolutions at general meetings (N.B. availability of these options could in certain limited instances be restricted as a result of regulation applicable to F&C as a member of the wider BMO Financial Group).
- F&C prefers to engage with companies in a constructive manner and will only consider making public statements in advance of general meetings or requisitioning a general meetings in exceptional circumstances.
- As a broader framework for internal governance F&C's Corporate Governance Committee provides a senior forum for escalation to review problematic cases with companies in F&C's investment holdings, whilst ensuring that F&C maintains compliance with its regulatory obligations as a member of the wider BMO Financial Group.

#### PRINCIPLE 5

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

##### **FRC Guidance on Principle 5:**

- At times collaboration with other investors may be the most effective manner in which to engage.
- Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.
- Institutional investors should disclose their policy on collective engagement which should indicate their readiness to work with other investors through formal and informal groups when this is necessary to achieve their objectives and ensure companies are aware of concerns. The disclosure should also indicate the kinds of circumstances in which the institutional investor would consider participating in collective engagement.





### F&C Position on Principle 5:

- Collaboration with other investors is an important part of F&C's engagement outreach, and much of F&C's engagement is conducted on a regular basis with other investor groups. Collective engagement is undertaken when we believe our engagement message is most effectively achieved in a larger group context (N.B. in certain limited instances, the ability of F&C to pursue certain types of collaborative engagement may be restricted as result of regulation applicable to F&C by virtue of it being a member of the wider BMO Financial Group). This can reflect a range of issues, relating to strategy, risk, board representation, shareholder rights, remuneration and corporate responsibility.
- F&C has a long track record of collective engagement with other investors around the world. This includes our active involvement in investor bodies referenced elsewhere in this document, including:
  - Investment Management Association (IMA), including IMA Corporate Governance and Engagement Committee;
  - Quoted Companies Alliance (QCA) Corporate Governance Expert Group;
  - National Association of Pension Funds (NAPF)
  - Global International Governance Network (GIGN);
  - International Corporate Governance Network (ICGN) Shareholder Rights Committee;
  - Asian Corporate Governance Association (ACGA);
  - Eumedion;
  - Institutional Investors Group on Climate Change;
  - Council of Institutional Investors (CII); and
  - Principles for Responsible Investment (PRI).

### PRINCIPLE 6

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

#### FRC Guidance on Principle 6:

- Institutional investors should seek to vote all shares held. They should not automatically support the board.
- If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. In both instances, it is good

practice to inform the company in advance of their intention and the reasons why.

- Institutional investors should disclose publicly voting records.
- Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services.
- Institutional investors should disclose their approach to stock lending and recalling lent stock.

### F&C Position on Principle 6:

- It is F&C's policy to vote at all shareholder meetings on behalf of our investment clients and third-party **reo**® clients where voting is mandated.
- F&C has developed voting and corporate governance guidelines that outline F&C's expectations with regard to companies' corporate governance practices, protection of shareholder rights and disclosure of information prior to general meetings, as well as factors that will lead to F&C not voting in favour of director candidates or other management resolutions. These are communicated to investee companies at the start of the year.
- In 2013, F&C voted close to 60,000 resolutions at 5,797 company meetings in 66 countries worldwide, on behalf of its in-house holdings and those of its **reo**® clients. In the UK, F&C voted on 9940 resolutions at 616 company meetings.
- It is F&C's policy to disclose this voting activity publicly, including explanations of the reasons for any votes that do not support management.
- It is also F&C's policy to notify the chairmen or senior executives of companies of F&C's voting outcomes. This will include an explanation outlining each case in which F&C did not support management resolutions.
- F&C votes using ISS' electronic proxy voting platform. F&C also subscribes to the voting advisory services, including both ISS and IVIS. These voting services are used as supporting research in the voting process.
- F&C observes that stock lending is a widespread market practice involving the sale and contractually pre-agreed repurchase of a stock, collateralized by a basket of securities. F&C believes that stock lending 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 stock lending and voting is a matter for individual decision by clients. For those clients wishing to be involved in stock lending, 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 stock lending at all, should they prefer to vote all stocks at all times.

## PRINCIPLE 7

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

### FRC Guidance on Principle 7:

- Institutional investors should maintain a clear record of their stewardship activities.
- Asset managers should regularly account to their clients or beneficiaries as to how they have discharged their responsibilities. Such reports will be likely to comprise qualitative as well as quantitative information. The particular information reported and the format used, should be a matter for agreement between agents and their principals.
- Asset owners should report at least annually to those to whom they are accountable on their stewardship policy and its execution.
- Transparency is an important feature of effective stewardship. Institutional investors should not, however, be expected to make disclosures that might be counterproductive. Confidentiality in specific situations may well be crucial to achieving a positive outcome.

- Asset managers that sign up to this Code should obtain an independent opinion on their engagement and voting processes having regard to an international standard or a UK framework such as AAF 01/06. The existence of such assurance reporting should be publicly disclosed. If requested, clients should be provided access to such assurance reports.

### F&C Position on Principle 7:

- F&C maintains a proprietary in-house database that provides detailed documentation and a clear audit trail of F&C's voting activities and engagements with companies.
- F&C provides quarterly reports on its voting and company engagement activities to its **reo**® and, if requested, F&C's fund clients. Confidential engagement reports highlight the number of individual engagements, the specific issues engaged upon, as well as a list of "milestones" - F&C's term for positive engagement outcomes.
- F&C publicly reports its voting activities. These reports contain details of votes on individual resolutions and an explanation of the reasons for any votes that do not support management. These voting reports are posted on F&C's website: <http://vds.issproxy.com/SearchPage.php?CustomerID=3660>
- F&C also reports publicly on its company engagement activities on a quarterly basis. These reports provide detail on company engagement by number of companies, issue, geography, and reasons for engagement. Furthermore, F&C's annual Responsible Investment Report is published on our website and sets out the results of F&C's ethical and sustainable investing, ESG integration and active ownership activities.
- With regard to external assurance, F&C has obtained an independent opinion from KPMG Audit Plc on its proxy voting activities based on the standards of the AAF 01/06 Guidance issued by the Institute of Chartered Accountants in England and Wales.

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