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Press Release

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Global crisis pushes governance issues centre-stage

The global economic crisis and outrage at excessive risk-taking in the banking system have pushed governance issues firmly centre-stage and will result in tougher scrutiny by investors on issues such as executive pay in the future, claims leading asset manager F&C Investments.

At the launch of its annual *Responsible Investment Report* in London today, F&C highlighted the serious and ongoing corporate governance failings in the financial sector, including a failure to link pay to genuine long-term performance, weaknesses in risk management and board oversight, and challenges to the principle of pre-emption rights for existing investors. In this highly charged environment, investors need to engage effectively and transparently with companies, as well as consistently exercise their voting rights.

In its *Responsible Investment Report*, F&C disclosed its global voting record during 2008, providing detailed analysis of the major trends in governance during the last year. The report revealed that F&C exercised its voting rights on 29,165 proposals across 2,553 companies in 59 countries. Overall, F&C opposed or abstained on management recommendations 14% of the time. On each occasion where F&C did not support company management, it wrote to the company secretary detailing its concerns.

The report showed significant shifts in F&C's voting record in individual countries. This included a sharp rise in votes against management in the US, from 16% in 2007 to 24% in 2008, reflecting two factors: 1) long-awaited reforms on majority voting that raised the number of contentious elections for individual board candidates, and 2) a sharp uptick in resolutions filed by minority shareholders, which also tend to be critical

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of management. F&C was particularly vocal in calling for shareholders to have a 'say on pay' at US companies.

Karina Litvack, Head of Governance & Sustainable Investment, said: "We believe that a failure in governance lies at the heart of the banking crisis. The events of the last few months have confirmed that the soaring pay packages for top bank executives were driven by extraordinary risk-taking rather than real, sustainable profits. Investors can be part of the solution, by spotting red flags and using their influence as shareholders to press for better governance practices. F&C has been playing a major role in this area by focusing on corporate governance practices, but also by encouraging better management of environmental, social risks and opportunities, through its Responsible Engagement Overlay, **reo@**,"

The overall pattern of F&C's global voting was similar to that in 2007, with F&C's votes against management often reflecting concerns about weak risk controls and inadequate oversight by the audit or remuneration committees. But, pointed out Litvack: "Our votes in 2008 mainly reflected the state of the world in the early months of the year, when the majority of company meetings took place. At that time, the banking sector was still only grappling with the early signs of the crisis that would later unfold. Now investors are faced with their next challenge: companies scrambling to raise capital in ways that neglect the rights of existing shareholders. We anticipate that our scrutiny of companies' activities will lead us to take a harder line in 2009 in many areas, to protect our investments and promote better governance practices".

The report also highlights F&C's engagement on a range of governance, environmental and social issues during 2008, including corporate governance standards in emerging markets; the issue of access to medicines for developing countries; and the challenges of doing business in regimes such as Sudan and Burma.

Hot spots for 2009

Looking forward to 2009, F&C highlights the need for regulators to introduce smart regulatory regimes that can support long-term sustainable growth in the financial sector, while more actively controlling systemic risk. F&C will continue actively using its influence to engage with regulators, seeking to ensure that regulatory reform is supportive of investor rights and long-term value creation. Also, F&C will be focusing on the impact that the dramatic bailouts and recapitalisations of financial institutions will have on shareholder rights; encouraging more companies to give shareholders a vote on remuneration; and calling for companies struggling under the current environment to incorporate sustainability as a key value driver for their core business strategy, rather than just a reputation-enhancing add-on.

Litvack added: "The current crisis demands urgent attention but it is important not to lose sight of other longer-term risks that have the potential to have a devastating impact on the global economy, such as climate change. Both the credit crunch and the pending climate crisis involve a failure of the market to recognise and adjust for clear warning signs of danger ahead."

F&C, which manages £98.6 billion in assets for a mix of insurance, institutional and retail clients, has a leading franchise in governance and sustainable investment. To obtain a copy of the Responsible Investment Report 2008 or to arrange an interview with a member of F&C's Governance & Sustainable Investment team please contact paula.garrido@fandc.com

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Notes to Editors

F&C Investments

- F&C Asset Management (F&C) is a London Stock Exchange listed asset management group which traces its origins back to 1868 with the launch of the Foreign & Colonial Investment Trust, the first ever publicly listed investment fund. Foreign & Colonial Investment Trust remains a client of F&C.
- F&C is an active fund manager with a multi-specialist investment model where individual teams have strong accountability for their products and processes. The group is also an active shareholder with a leading franchise in governance and sustainable investment.
- F&C now manages £98.6bn (€102bn) of assets* for a diverse range of institutional, insurance and retail clients across all major asset classes – equities, bonds, cash and property – as well as alternative and specialist product classes such as Socially Responsible Investment funds, hedge funds, funds of hedge funds, private equity funds, Global Tactical Asset Allocation products and Liability Driven Investments. F&C invests globally and has been a longstanding investor in emerging markets.

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- F&C manages assets principally from three investment centres: London, Amsterdam and Edinburgh. The group has an office network spanning ten countries: China (Hong Kong), France (Paris), Germany (Frankfurt), Ireland (Dublin), The Netherlands (Amsterdam), Portugal (Lisbon), Sweden (Stockholm), Switzerland (Geneva), UK (London, Edinburgh, Dorking) and the United States (Boston).

* As at 31 December 2008.

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