



F&C Management Limited

Exchange House
Primrose Street
London EC2A 2NY

Telephone +44 (0)20 7628 8000

Facsimile +44 (0)20 7628 8188

www.fandc.com

Press Release

For immediate release

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Lessons from crisis in danger of being wasted, warns fund manager

Companies are still failing to embrace genuine cultural changes towards better corporate governance practices, despite increased demands from shareholders, according to one of Europe's largest institutional investors. At the launch of its annual *Responsible Investment Report 2009* in London today, fund manager F&C highlighted that as companies have emerged from the recession, shareholder patience has been tested by generous pay packages that still lack clear links to long-term performance and refinancing proposals that flout basic shareholder protection principles.

The latest F&C *Responsible Investment Report 2009* gives detailed information on the company's engagement activities in Environmental, Social and Governance (ESG) issues during 2009. During the year, F&C voted on almost 58,000 resolutions at 5,225 companies in 66 countries. This was almost double the number of votes cast in 2008, the result of a sharp rise in the number of clients that F&C now represents under its Responsible Engagement Overlay (**reo**®) service. This includes other institutional investors where F&C is not the portfolio manager.

Alongside scrutiny of board oversight and pay, areas of particular focus included the expansion of oil and gas companies into areas of the world presenting ever greater political and environmental challenges; the role of companies in promoting public health; factory labour standards; and sustainability in the real estate sector.

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F&C Asset Management plc is the listed holding company of the F&C Group.

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Voting trends in 2009

Over 2009, F&C voted in support of management recommendations 78% of the time, down from 81% in 2008. One of the reasons for this was a rise in F&C's opposition to the remuneration proposals put forward by management, from 15% in 2008 to 25% in 2009. Proposals on capital structures were another area of controversy, as companies under pressure to rebuild battered balance sheets often overstretched basic good governance rules.

Geographically, 2009 also saw a notable hardening of positions across several regions. For instance, in the UK, after years of productive company-shareholder dialogue, last year witnessed more confrontation. Pay plans in some of the UK's largest companies were an area of great concern, with F&C voting against management 19% of time, compared to only 10% in 2008. The picture also worsened in Australia, where F&C's opposition to remuneration plans rose from 21% to 27%, due to poor disclosure on pay deals.

During 2009, F&C continued to ramp up its engagement activity in emerging economies, with many visits to companies on their home territories. In Brazil, votes against management swelled from 13% to 27%, but this largely reflected a sharp rise in the proportion of small and medium-sized companies engaged whose standards of disclosure often lag their larger compatriots. On the other hand, opposition to director elections in Russia fell considerably from 54% to 38%, reflecting a change in F&C's policy position on cumulative voting to make the best of its limited ability to support the election of independent directors.

Where possible, F&C sought to join forces with other like-minded investors, as well as with companies and other stakeholders, to push for reforms in public policy. A major focus in 2009 was influencing the reforms to governance put in place following the financial crisis, as well as taking an active role on the global debate on climate change and the Copenhagen summit.

Outlook for 2010

The big surprise of 2009 was the speed of the global recovery, but in its report F&C warns that more work is needed to ensure that this growth is genuinely sustainable. Regulatory reforms following the financial crisis are still a 'work in progress' in many countries, but some of the debates and consultations that took place in 2009 are likely to start translating into hard policy this year.

2010 should see final decisions on what shape changes will take in areas such as governance reforms in financial institutions and more widely across the corporate landscape in the UK, as well as whether 'say on pay' will become mandatory for all listed companies in the US. Also, leading emerging markets have started to take action with stock exchanges and securities regulators tightening listing standards and rewarding companies with good ESG credentials.

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Karina Litvack, Head of Governance & Sustainable Investment at F&C, said: “2009 was an extremely active year for shareholder engagement, as the recent financial crisis brought home the risks of poor corporate governance and the tragic spillover effect it can have on ordinary people far removed from financial markets. But as signs of recovery begin to appear, there is a real risk that the lessons of this crisis will be wasted, as governments and investors alike go back to a ‘business as usual’ approach. In order to avoid a repeat of the systemic meltdown we just experienced, it is essential that reforms be put in place to promote both better governance at companies and more rigorous oversight by investors. The problems that beset the global economy, whether financial or sustainability-related, have not disappeared, and far-sighted measures are still very much needed to set ourselves on a more sustainable footing.”

She added: “Regulatory reforms must be accompanied by the acceptance of good governance as a cornerstone of corporate culture. Companies need to show that both governance and pay are genuinely driven by the desire for long-term performance. Despite improvements, the recent furore over planned bonus payments in the banking sector suggests that a genuine cultural shift has yet to occur.”

F&C, which manages £97.8 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 2009 or to arrange an interview with a member of F&C’s Governance & Sustainable Investment team please contact paula.garrido@fandc.com

Press enquiries – +44 (0)20 7011 4600

Paula Garrido	Communications Managers	+44 (0) 20 7011 4190
Jennifer Donohoe	Communications Manager	+44 (0) 20 7011 5017

Notes to Editors

F&C Investments

- F&C Asset Management (F&C) is an independent London Stock Exchange listed asset management group with around 100,000 shareholders.
- F&C traces its origins to 1868 with the launch of Foreign & Colonial Investment Trust, the first ever publicly listed investment fund. Foreign & Colonial Investment Trust remains a client of F&C.

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- 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 manages £97.8 billion (€110.2 billion) 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. F&C invests globally and has been a longstanding investor in emerging markets.
- F&C has three pillars to its strategy: *Advisory & Solutions* – the servicing of strategic partners and the provision of investment solutions and overlays such as shareholder engagement programmes, Liability Driven Investments, Asset & Liability Management, Multi-Manager and Fiduciary Management; *Alpha Investing* – active fund management across a diverse range of asset classes and markets but with a focus on UK and European equities and fixed income and Emerging Markets; *Environmental, Social & Governance Investing* – building on its market leading presence in ethical investment with new products.
- F&C REIT Asset Management is the group's global property asset management business. It was formed in 2008 from the merger of F&C's property division and REIT Asset Management. F&C REIT operates from offices in London, Dublin, Munich, Mumbai and Stockholm.
- F&C manages assets principally from three investment centres: London, Amsterdam and Edinburgh. The group has a global office network spanning a dozen countries: China (Hong Kong), France (Paris), Germany (Frankfurt & Munich), India (Mumbai), Ireland (Dublin), The Netherlands (Amsterdam), Portugal (Lisbon), Sweden (Stockholm), Switzerland (Geneva), UK (London, Edinburgh, Dorking) and the United States (Boston).
- In March 2009 F&C signed a Memorandum of Agreement with Hua Xia Bank, one of China's twelve nationwide joint stock commercial banks, to establish a joint venture fund management company in China in which F&C will have a 19.5% interest.

* As at 31 December 09.

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