



Corporate Governance Operational Guidelines.

General



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1. Key trends.

These Guidelines set out F&C Asset Management plc (F&C)'s expectations of investee companies in terms of good corporate governance and explain how F&C exercises its votes. They apply to all holdings globally, but are supplemented by country-specific guidelines¹. They should be read in conjunction with F&C's "Responsible Ownership" policy², 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:

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

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

F&C's voting and governance policies underpin its engagement with investee companies, and guide its voting at AGMs and EGMs. However, each F&C client 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 clients in individual cases where these 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.

F&C expects to review and update this document at least annually, to reflect regulatory changes, changes in market practice and any developments in its views.

Note on... **stocklending.**

Stocklending is an important factor in preserving the liquidity of markets, and in providing investors with an additional return on their investments. It does, however, impair the ability of the lender to exercise its voting rights. 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.

1. Country-specific guidelines for the UK are available at www.fandc.com/governance within "Publications".
 2. Also available at www.fandc.com/governance within "Publications".

Key principles

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 ESG issues
- A commitment to promoting throughout the company a culture of transparency and accountability that is grounded in sound business ethics
- A remuneration policy that rewards the creation of long-term shareholder value and the achievement of corporate objectives.

F&C's approach

As a global investor, F&C recognises that such principles may be expressed differently in different markets. 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 approaches each company individually and relies on staff expertise and discretion to tailor voting³. When F&C does not vote with directors' recommendations, it writes to the company and explains the reasons why.

2. Role, structure and operation of boards.

Introduction

F&C uses the term "board" to cover the unitary board, the two-tier board and the unitary board supported by an executive body whose members may or may not be members of the public company board. 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 country to country and 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
- Accountability to shareholders.

Other factors will vary depending on the nature of the company's business, its country of domicile, its size and complexity, its stage of

development, its ownership structure, the remit of the board and the skills of the individuals on the board. In such cases, F&C will tailor its voting to reflect the individual circumstances facing each company, based on its understanding of how they may affect its long-term profitability.

Roles and independence

The composition of the board is of the utmost importance. Boards should have meaningful representation of both executive and non-executive elements. Non-executives should normally be wholly independent of the company, although F&C recognises that, in certain cases, connected non-executives have a valuable role to play. In building an effective board, the company should seek candidates from the widest pool of relevant talent so as to ensure properly informed board discussions. F&C's more detailed expectations are set out below.

The chairman and separation of principal roles

The chairman⁴ 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 officer (CEO). Different individuals should hold the roles of chairman and CEO, because they are different and usually mutually exclusive jobs and, in F&C's view, it is best to avoid the concentration of power. For the same reason, they should not be

3. 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.
 4. F&C recognises the widespread use of alternative terms to describe the role of chairman, including "Chairwoman", "Chairperson" and "Chair". For simplicity, F&C uses the terms "chairman" and "he", "his" and "him" irrespective of the gender of the individual occupying that post.



connected parties (see “*Independence of non-executive directors*” below). 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.

Executive directors

Including executives in board meetings is essential to enhance discussion and allow independent directors to gain the fullest understanding of company operations. Executives who attend most meetings should be members of the board, but their number should not outweigh the number of independent non-executives.

Non-executive directors

Non-executive directors have a valuable contribution to make to the development of the quality of management of the company. This is a demanding role. While F&C does not have hard rules about the number of directorships an individual can hold, he⁵ must have sufficient time and energy to discharge the role properly, particularly during occasions 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 would likely 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

While F&C generally expects all large companies to have a majority of independent directors, it believes that having an appropriate mix and balance of skills is more important than a fixed proportion of non-executive directors. However, it is essential to have enough independent non-executive directors for an adequate spread of views on the board and for membership of the board committees.

Independence of non-executive directors

Independence of individual directors is valued, but a good balanced board is valued above all. F&C will support non-independent directors where it is aware of particular circumstances 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 UK National Association of Pension Funds, among others. However, F&C’s approach is principles-based rather than absolutist, as it seeks to ensure that directors are able to act as independently as possible in the interests of shareholders. Companies may wish to use the reporting of the board evaluation process to justify the independence of some directors or provide a much fuller discussion in proxy materials.

For public companies, independent non-executive directors should:

- Not be former executives of the company. F&C does not support the idea of a “cooling off” period for former executives, although in the case of individuals who have served in a junior capacity, a hiatus may be appropriate
- Not have close family ties with the company’s advisors, directors or senior employees
- Not have served on the board for more than 12 years, as they may lose their independent perspective
- Not hold cross-directorships or have significant links with other directors
- Not be major shareholders or representatives of any special interest group
- Have no significant commercial involvement with the company as professional advisers, major suppliers or customers
- Not be entitled to performance-related pay, stock options, or pensions
- Not normally hold other directorships in companies in a closely-related industry
- Not be known as close associates of any executives.

Interlocking boards

F&C also seeks explanation regarding the independence of directors who jointly serve on more than one board. Such interlocking relationships are problematic only when one of the individuals is an executive on one of the boards and is, therefore, evaluated and remunerated by his fellow director. This relationship can compromise the former’s independence on the board where he is supposedly fully independent.

5. F&C encourages companies to nominate competent male and female board members. However, for simplicity, F&C uses the terms “chairman” and “he”, “his” and “him” irrespective of the gender of the individual occupying that post.

Independence of employee representatives

F&C does not support the European Union's stance on elected employee directors. While a number of European countries have co-determination legislation mandating a certain percentage of employee representatives on the board, F&C does not consider these individuals to be independent. Hence F&C expects companies domiciled in countries with mandatory co-determination to ensure that the board and its committees have adequate representation of truly independent directors. Employee directors may attend committee meetings but should not be members of the audit and remuneration committees.

Competence, objectivity and renewal

Competencies and perspectives

A relevant and suitably diverse mix of skills and perspectives is critical to the quality of the board. Companies should therefore strive to widen the pool of potential candidates to ensure that they draw on the richest possible combination of competencies and outlooks. The use of specialist recruitment consultants and other appropriate sources, including public advertisement, should normally be considered.

In all cases, candidates must be selected for their ability to enhance company performance. 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 that may enhance the board's overall performance. While boards cannot 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.

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. After 10 years, directors should be subject to annual re-election. In many jurisdictions, local law allows shareholders to propose a shareholder resolution for removing a director. Where local law or practice does not allow shareholders to do this, all directors should be required to submit themselves for annual re-election. 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.

Nomination of directors

F&C strongly believes that a board nomination committee composed exclusively of independent non-executive directors, plus the company chairman, is best placed to identify and put forward suitable candidates for the board. Shareholders should only put forward candidates where there is clear evidence of ineffective board oversight and unwillingness to correct the problem. F&C expects companies to put forward only one candidate for each available position as an indication that the company is clear about the value it expects the directors individually to bring to the board, the combination of complementary skills and backgrounds it has recommended, and the strategic direction of the company.

Balanced composition

F&C will consider voting against the chairman or members of nominating committees who have not constructed appropriately balanced, independent boards. Indicators include: an over-reliance on long-standing members where 25% of directors have served for more than 10 years; an over-reliance on affiliated directors; lack of any gender, racial or ethnic diversity. After nine years, directors should be subject to annual re-election. Provided that an adequate justification is given as to their continued service on board committees, F&C is likely to support directors beyond nine years of service. However, after twelve years F&C would only in very rare circumstances support a director's continued service on board committees.

Retiring directors

F&C would not normally expect to see a retiring executive director 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.

Effective functioning of boards

Board size

In the case of a two-tier board structure, neither board should be large: between five and 10 members is appropriate. The unitary board should have between five and 15 members. In the case of overly large boards and in the absence of a commitment to reduce board size, F&C may withhold support from one or more directors.

Two-tier boards

Where there is more than one body forming the board, there needs to be an effective mechanism for the various elements of the board to work together. The relevant procedure should be described publicly so that the mechanism is clear to all involved with the company.



Boards without significant executive representation

Adequate executive representation on boards is very important to ensure properly informed discussion (see “Executive directors” on page 3). However, where this approach is not adopted, there needs to be an effective mechanism for the board to draw upon the expertise and knowledge of executives. In particular, it is important that the appropriate executives are present at board meetings.

Boards without non-executive representation

F&C’s concern with a balanced board also means that where there is no non-executive representation on the board, F&C will withhold support from the most senior director up for election.

Board evaluation

F&C considers an effective and transparent board evaluation process to be very valuable for all companies and essential for large companies. Board evaluation should assess the effectiveness of the board as a whole, as well as board committees and individual directors. The results should be used to identify developmental and training needs. The evaluation process may be under the supervision of the nomination committee and facilitated by external advisors, and it should be the subject of a report to shareholders (see section on “Reporting”).

Board meetings

There should be sufficient meetings for the proper management of the company. F&C regards six as a minimum, and, often, more frequent meetings are necessary. The company should disclose the attendance record of individual directors in the annual report. F&C may withhold support from directors with a poor attendance record.

Non-executive director only meetings

Non-executive directors (NEDs) should hold NED-only meetings on a regular basis, e.g. prior to board meetings, and when circumstances demand. They should also have at least one meeting a year to hold an unconstrained discussion away from day-to-day business matters. Ideally, this should be chaired by a senior or lead independent director, although the chairman may be present provided he is non-executive.

Training

All directors should receive appropriate training when appointed, and subsequently on regular occasions. Training needs should be systematically identified within board evaluation and addressed, including those pertaining to any significant social, environmental and ethical (SEE) matters.

Role of the company secretary

The company secretary is responsible to the board of the company rather than the company’s management. The company secretary should be appointed and employed specifically by the board as a whole, rather than by the company. In F&C’s experience, company secretaries provide an effective conduit for shareholders to address the whole board, or for shareholders to contact non-executive directors. The board as a whole is the only body that should have the authority to dismiss the company 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 AGM and other meetings where any resolution could be considered contentious or consultation is otherwise deemed appropriate.

The non-executive directors should also seek to establish lines of communication with the principal institutional shareholders, in separate meetings and by joining a few of the regular meetings that executive directors hold with institutional shareholders.

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 or independence of that individual (see “Voting on board committees” below).

F&C will usually vote in favour of board diversity proposals if these address an apparent lack of market-appropriate response to diversity and consistently poor results.

3. Board committees.

F&C considers it essential for the board to have fully independent audit and remuneration committees, as well as a nomination committee composed of a majority of independent directors. Ethics, health and safety, governance, sustainability or corporate responsibility committees are desirable, and in some cases essential. All board committees should report on their activities annually to shareholders (see section on “Reporting” below).

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 instances where a very substantial or majority shareholder is evident, there may be a case for its representation.

Audit committee

The audit of a company provides an important safeguard for shareholders and for all those that have dealings with that company with regard to the control and financial status of the company.

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. 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.

The audit committee should also be accountable for the proper identification, management and reporting of all significant financial and non-financial risks, and ensuring that there is an effective mechanism for the internal reporting of wrongdoing, a.k.a. ‘whistleblowing’, related to financial fraud and any other breach of company policies and ethical codes. It may serve as the body to receive whistle blowing reports where no other acceptable body exists.

The audit committee should ensure that any material related-party transactions do not disadvantage minority shareholders.

In countries where it is not customary to have a board audit committee (e.g. Italy, Japan), the individual auditors should be independent and fulfil the role of the committee. 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 auditors

The auditors’ performance and appointment should be periodically reviewed. Where the same firm remains as auditor for a period of time, there should be a mechanism within the auditing firm to ensure that the responsibility for the audit changes hands. F&C does not regard systematic rotation of audit firms as intrinsically desirable or in the best interest of shareholders. F&C expects that shareholders should vote on the appointment and payment of auditors.

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. F&C recognises that there are certain areas of non-audit work where the company’s auditors may provide valuable expertise, without compromising independence. Very large non-audit fees, or non-audit fees in excess of audit fees, can be considered an indicator of risk.

Remuneration committee

The remuneration committee is responsible for setting the remuneration of executive directors and senior executives and overseeing the policy for remuneration throughout the company. It should consist exclusively of independent non-executive directors, at least three in number.

The remuneration committee should maintain authority to withhold or reclaim all or part of non-base pay (including cash bonuses, options and stock awards) from executives in cases where it deems it appropriate. In particular, this might occur where representations that executives had made to the audit committee about the integrity of controls were revealed to be inaccurate, or executives had failed to exercise reasonable skill and care in the discharge of their duties. At a minimum, substantial restatements of the financial accounts should trigger a reassessment of performance-based remuneration where this had been calculated on the basis of inaccurate figures.

Corporate Governance Committee

F&C recognises that companies may choose to have the nominating committee or a specific corporate governance committee responsible for corporate governance practices and procedures. Regardless of the structure, the committee should strive to achieve good practice and should consult with institutional shareholders to understand best practice.



Corporate responsibility, ethics or sustainability committees

F&C believes that a corporate responsibility, ethics or sustainability committee is highly desirable. In some cases, such as those large companies exposed to multiple social and environmental risks, they are essential. Such committees would both serve as a source of external perspectives on emerging business and societal concerns, and ensure that the company has proper internal control systems to identify and manage any risks that such issues may pose to the business.

Voting on... board committees:

F&C will not normally support non-independent and affiliated directors who serve on the three key committees. This includes directors who have served on the board for more than 12 years and continue to sit on key committees, as they can no longer be considered fully independent. However, if the company can clearly explain why their presence is necessary, then F&C may vote in favour.

In general, F&C will abstain on the re-appointment of auditors where it is concerned that the ratio of non-audit to audit fees puts the auditors' independence into question.

4. Reporting.

The report and accounts, a.k.a. annual report, is an important link in the chain of accountability. 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.

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. In producing such reports, companies in the European Union should seek to comply with the EU Accounts Modernisation Directive and related member state regulations. In all markets, F&C favours reports which are:

- Comprehensive, covering the strategic direction of the business
- Balanced, with even-handed treatment of both good and bad aspects
- Underpinned by KPIs that:
 - Drive business performance
 - Are comparable over time
 - Are supported by detailed information on how they are calculated
 - Supported by a robust process for board decision-making
- Consistent and joined-up with other company reporting including corporate social responsibility reporting.

Directors

Adequate biographical information on the directors should be provided for shareholders to be able to assess them. This should include their qualifications and experience, age, 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.

Board committees

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 processes for supervising non-audit work, and how it considers the interests of minority shareholders with regard to material related-party transactions.

Remuneration committee report

The committee should report annually on its activity, in particular on its policy and practices, in order to inform shareholders in a clear and explicit manner. F&C expects the report to break down and discuss the structure of the overall remuneration package into elements of base salary and long and short-term incentives, and to be clear about performance targets and maximum potential pay-outs.

F&C recommends that companies put the remuneration report to an annual shareholder vote. F&C's experience of voting on remuneration reports in the UK and other countries has shown that this is a valuable mechanism that improves dialogue and understanding between the board and shareholders.

Corporate responsibility or sustainability committee report

F&C encourages companies to report on any significant SEE 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.

System of internal controls

The directors 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.

Code of corporate governance

Companies should provide a full and clear statement of all matters relating to the application of the principles, sub-principles and provisions of the relevant national code of corporate governance. The way the provisions are put into effect should be clearly discussed, and any deviations supported by meaningful explanations. 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 primary listing on the London Stock Exchange should seek 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.

5. 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.

Qualified audit statement

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

Shareholder resolutions

A full and reasoned statement should be provided of management's stance on any shareholder resolution presented 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.

Where F&C has significant concerns as to the completeness and accuracy of the report and accounts, including aspects of corporate responsibility, and these cannot be resolved, F&C may choose not to support the report and accounts. Where relevant, F&C may not ratify management or supervisory board acts.

F&C will withhold support from directors where there is insufficient biographical information provided on them.

F&C considers expensing of stock options and any other share-based awards critical to reflect companies' performance adequately. Where F&C already has concerns about the business, it will be more inclined to vote against the report and accounts where options are not expensed.

F&C will vote against audit committee 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 auditors, such as fees paid or their independence.

Disclosure

F&C supports appropriately detailed disclosure of board and management remuneration packages. The annual reports from the remuneration committees to shareholders should include the total amount of remuneration in cash, options, stock and benefits that executives may receive under different performance scenarios.



Pension arrangements for executives and employees should be disclosed in detail, including expected funding and pay-out scenarios. Such reports should be in plain language and include tax implications for the company.

The company should enable shareholders to understand its remuneration strategy, and assure themselves that it is properly aligned with their long-term interests. As such, the remuneration of all directors, including all non-executive and executive directors, should be disclosed individually, and there should be banded disclosure of those individuals at sub-board level who make a significant contribution to the group.

Executive contracts

These should not be for more than 12 months, except in unusual cases, for example where an initial 24-month period is required for recruitment. In such cases, the notice period should reduce month by month until the agreed period of no more than 12 months is attained. F&C also believes that, prior to agreeing employment contracts, companies should actively consider the potential rewards on severance in the event of inadequate performance, and clarify the performance conditions under which such severance benefits are to be payable. F&C expects companies to seek mitigation in case a director has taken up employment elsewhere and to adjust the length and size of any payments accordingly. F&C considers it best practice that the maximum amount does not exceed one year's base pay and pension entitlements.

Share schemes

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 to the rate at which these are issued each year. By way of guidance, F&C would expect no more than a total of 10% of a company's equity to be used for such schemes within a 10-year period covering all schemes, with no more than 5% being available for discretionary schemes during this period. Treasury shares should be included within these limits. Good practice is to include all shares used, whether market purchase or newly issued, within these limits. F&C will deviate from these limits where it is convinced that the commercial drivers for it outweigh the dilution impacts. If the company is insufficiently transparent regarding the details of such schemes, F&C may abstain or even vote against them.

Schemes should be structured to reward long-term growth in shareholder value, and therefore preferably be staggered over a minimum of three years. F&C strongly believes that exceptional performance over a significant period merits an exceptional level of remuneration. 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 in an industry where they are significant contributors to business success, the company should explain the reasons for this.

Employee ownership

Widespread employee ownership can positively contribute to shareholder value as it further aligns employees' interests with those of shareholders. Such devices should not, however, be instituted as anti-takeover devices. Discounts on employee-wide stock option plans should not exceed 20%, and shares issued should be included within company-wide dilution limits. Non-executive directors should not be entitled to options and therefore not be included in any such schemes.

Voting on... remuneration:

F&C will consider all votes relating to remuneration on their merits, and vote against a policy or individual schemes where it believes that these are not in the best interest of the company and its shareholders.

F&C strongly welcomes dialogue with companies on remuneration issues and looks favourably on any company that puts its remuneration policy to a vote. In markets where this is not mandatory, F&C is unlikely to vote against the remuneration policy in the event of it not meeting best practice standards, though it will send written comments to the board.

F&C will vote against schemes that could lead to excessive dilution, and there are no extenuating circumstances.

Where substantial awards can be made under a scheme, and it is not backed up by appropriate disclosure, F&C will usually vote against.

If F&C considers the overall award package excessive, and no acceptable justification is provided, F&C will vote against.

In rare cases, where F&C cannot vote on a remuneration-related matter that is of concern, it will choose to withhold support from the most senior director up for election or the report & accounts.

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 appropriate questions. In investment meetings with companies, F&C should always address ESG issues where relevant.

Pre-emption

F&C believes that pre-emption rights for existing shareholders are very important. Shares may be issued for cash without pre-emption or for remuneration purposes, subject to shareholder approval and to strict limits as to the proportion of shares issued in relation to the issued share capital, and also subject to flow rates. While practice varies globally, F&C normally considers appropriate limits to be 5% in one year but no more than 7.5% in three years for general purposes, and no more than 10% in 10 years for remuneration. F&C will vote against management where pre-emption rights have been dis-applied and it does not consider the justification given appropriate.

Share repurchase

F&C expects companies to repurchase shares in the market when it is advantageous for the company and its shareholders. Directors should seek shareholders' authority for such transactions for a period limited to about one year, and the amount should also be limited to no more than 10% of the issued equity. Because of the nature of the business of investment trusts, F&C is prepared to see an authority to repurchase a larger amount – up to 15%. Any share repurchase must benefit all holders on equal terms taking account of options adjustment.

Voting rights

F&C favours a share structure that gives all shares equal voting rights. F&C does not support the issue of shares with impaired or enhanced voting rights. F&C is likely to withhold support for capital-raising by companies with a capital structure that involves unequal voting rights.

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 and the bidder. F&C considers social and environmental risk implications of any corporate activity as part of its assessment, particularly in high-impact industries. Subject to the circumstances, F&C will normally

support the incumbent management, unless F&C has lost confidence in its abilities, there are clear strategic or synergistic benefits to a transaction or the financials of the deal are compelling.

Artificial devices to deter bids, known as “poison pills,” are regarded as inappropriate and inefficient, unless they are strictly controlled and of very limited duration. F&C would normally vote against such anti-takeover devices.

Pension and other similar significant corporate liabilities

Companies should be aware of and report to shareholders on significant liabilities such as those arising from unfunded or under-funded pension commitments, or liabilities for medical cover. The extent of the liability should be reported and the plans, if any, that have been put in place to cover the deficit should be reported, including a reasonable time scale for action. The principle assumptions used in calculating amounts should form part of this disclosure.

Shareholder resolutions

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. Companies should always provide a comprehensive discussion of management's position on all shareholder resolutions, and be available to respond to reasonable enquiries from shareholders (see “*Liaison with shareholders*” above). In circumstances where F&C has serious concerns about a company's ESG practices 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.

Voting on... capital:

F&C votes against any structure that may be used as a poison pill unless companies define strict mandatory limits as to their use.

F&C will always vote against the issuance of shares with unequal voting rights except those that are effectively fixed interest instruments. Where a company seeks authority to issue shares beyond defined limits, and does not provide a satisfactory justification, F&C will vote against such authority.

F&C votes on any shareholder resolutions in accordance with its understanding of the long-term benefit to shareholders.

F&C will support resolutions seeking approval for the elimination of unequal voting rights, and may co-file such resolutions if direct dialogue with companies proves unsuccessful.



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 the web-based transmission of meetings.

Disclosure of voting results

F&C expects companies to disclose the voting results of the general meetings on their websites with a detailed breakdown of votes for and against as well as abstentions.

Shareblocking

F&C believes that shareblocking, i.e. the practice of preventing shares from being transferred for a fixed period prior to the vote at a company meeting, acts to discourage shareholder participation and should be replaced with a record date. Where shareblocking exists, F&C will follow client policy and may be prevented from voting because of concerns about failed trade settlement and extraordinary cost to clients. F&C systematically writes to all companies involved in shareblocking to encourage them to discontinue the practice, and, through its engagement with regulatory authorities and custodians, continues to press for elimination of this practice.

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.

Voting record

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 chooses to provide its retail fund customers with a comprehensive record of its voting by publishing it on its website⁶ on a monthly basis. Companies held in an F&C retail fund may also check their results on this web page. On request, F&C also provides institutional clients with the voting record of their funds. A summary of F&C's voting record can be found in its quarterly Responsible Engagement Overlay (*reo*[®]) report, the annual corporate governance report and its annual Corporate Social Responsibility report.⁷

Appointment of proxies

F&C believes that shareholders have the right to appoint any reasonable person as proxy to vote their shares.

Voting systems

F&C encourages the introduction of electronic voting systems that are accurate and provide an effective audit trail of votes cast. Furthermore, F&C encourages companies to disclose a record of how votes have been cast at shareholder meetings at, and subsequent to, these meetings.

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 it.

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 (for further details on F&C's policy with regard to political lobbying and donations, please see Appendix 1).

6. Also available at www.fandc.com/governance within "Publications".

7. Also available at www.fandc.com/governance within "Publications".



Appendix 1: Political lobbying and donations.

Political lobbying

F&C considers that company participation in the policy development process, either individually or through trade associations or other collective bodies, is legitimate and positive. However, subject to legitimate considerations of commercial confidentiality, companies should be fully transparent about what they do and how. In particular, companies should:

- Publish their overall lobbying policy and objectives: F&C assumes that a company is pursuing its commercial interests on behalf of its shareholders, but expects to see a policy that contains more than a generic statement.
- Develop and publish a code of conduct on lobbying that moves beyond the company's generic principles and approach to business ethics, to address the specific concerns raised by lobbying.
- Disclose fully and promptly the key and material formal positions they take on policy issues on which they lobby, e.g. all written submissions to regulators and lawmakers; lobbying positions on key industry issues; links or references to previously published materials such as statements in the Annual report.
- Disclose the organisations of which they are members, if these engage in lobbying of regulators and lawmakers; this should at minimum be at headquarters level, and also cover significant organisations⁸ of which operating subsidiaries are members.
- Ensure that these membership organisations substantially represent their views and uphold standards of conduct consistent with their own.
- Develop and publish clear policies on avoiding conflicts of interest when appointing former or still-active government and regulatory officials to executive or board positions.

Political donations

Donations to political candidates and political parties

F&C considers that donations to individual political candidates, political parties and organisations closely associated with political parties are inappropriate and should be strictly avoided. However, it recognises that in some countries, such as the United States, the practice of making donations to political candidates, parties and associated organisations is widespread and deeply-rooted. In cases where companies choose to make such donations, they should be fully transparent and seek prior shareholder approval, as outlined in *Shareholder approval* below.

Donations to advocacy organisations

F&C accepts that companies may legitimately make donations to think tanks, advocacy organisations or pressure groups that promote a particular policy platform that is consistent with their commercial interests. All such donations, if substantial, should be fully disclosed and the overall budget for them should be subject to prior shareholder approval, as outlined in *Shareholder approval* below.

Political Action Committees

In cases where companies have a Political Action Committee ("PAC") for their U.S.-based staff, they should develop and publish a code of conduct outlining the PAC's policies for collecting contributions and making donations. This should detail mechanisms protecting staff from undue pressure to make contributions and the company's policy for funding PAC administration. F&C expects that details of the donations made by the PAC should be made publicly available through annual reporting to shareholders. While this information can be accessed through government databases, for purposes of transparency and accountability the PAC should aggregate and disclose information publicly.

Shareholder approval

In cases where companies choose to make donations, F&C believes that, at a minimum, these should be fully disclosed and reported annually to shareholders. Moreover, shareholders should have an opportunity to vote on the political donations policy and the annual corporate budget for all political donations. This could be either the upcoming year's maximum donations budget or the past year's donations record.

A note on charitable donations

F&C supports charitable acts at an appropriate level, especially where an active charitable donations policy supports the company's engagement with its local or wider community. Companies should, however, be mindful of the legal or reputational risk that charitable donations may serve as a conduit for payments intended to obtain or retain business, and should therefore develop and publish clear guidelines on how recipients of charitable donations are vetted to minimise such risks.

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