F&C Investments

RESPONSIBLE OWNERSHIP ACTIVITY REPORT
Q3 2014

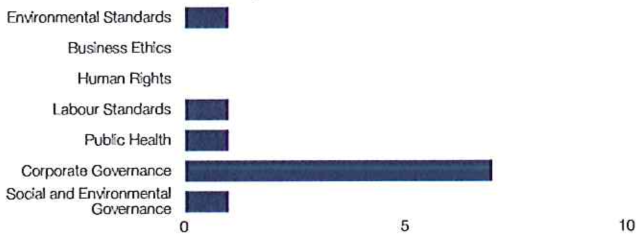
Shropshire County Council

The purpose of the ***reo***® (responsible engagement overlay)* service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The ***reo***® approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities. Through a combination of constructive dialogue and active share voting, ***reo***® works to drive behavioural change with companies, and records successful outcomes as 'milestones' – changes in corporate policies or behaviour following intervention.

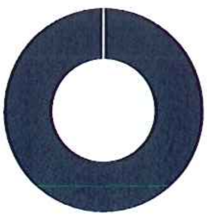
COMPANIES ENGAGED THIS QUARTER

Companies engaged	31
Milestones achieved	11
Countries covered	1

Milestones achieved by issue

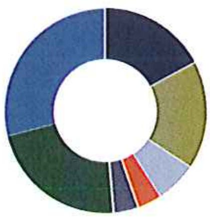


Companies engaged by country



United Kingdom	31

Companies engaged by issue **



Environmental Standards	13
Business Ethics	13
Human Rights	5
Labour Standards	3
Public Health	2
Corporate Governance	18
Social and Environmental Governance	22

BMO | A part of BMO Financial Group

* ***reo***® is currently applied to £89.9 billion ($153.9billion / €112.4billion) of assets as at 30th June 2014.

** Companies may have been engaged on more than one issue.

RESPECT ACCOUNTABILITY INNOVATION
F&C Investments CLIENTS FIRST

Company Engagement and Your Fund

Name	Country	Priority Company	Engagement	Milestone	In this report	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Acal PLC	United Kingdom		✔		✔						✔	
Alliance Pharma Plc	United Kingdom		✔		✔		✔					✔
Anglo American	United Kingdom	✔	✔		✔	✔						
Antofagasta	United Kingdom		✔	✔	✔	✔					✔	✔
Ashtead Group Plc	United Kingdom		✔		✔						✔	
AstraZeneca	United Kingdom	✔	✔		✔		✔					✔
Berkeley Group	United Kingdom		✔		✔						✔	
BG Group	United Kingdom		✔		✔	✔						
Booker Group PLC	United Kingdom		✔		✔						✔	
BP	United Kingdom	✔	✔		✔	✔			✔			✔
British American Tobacco	United Kingdom		✔		✔			✔				✔
Cairn India Limited	United Kingdom		✔		✔						✔	
Cargill Inc	United Kingdom		✔	✔	✔	✔				✔	✔	✔
Centrica Plc	United Kingdom		✔		✔	✔						✔
China Meihua Biological Technology plc	United Kingdom		✔		✔		✔					✔
Croda International plc	United Kingdom			✔	✔						✔	
Development Securities	United Kingdom		✔		✔						✔	
Diploma plc	United Kingdom		✔	✔	✔						✔	
DS Smith Plc	United Kingdom		✔		✔						✔	
Genus Plc	United Kingdom		✔		✔						✔	
GlaxoSmithKline	United Kingdom	✔	✔	✔	✔		✔			✔	✔	✔
HSBC	United Kingdom	✔	✔		✔	✔	✔				✔	✔
Intermediate Capital Group	United Kingdom		✔		✔						✔	
Lloyds Banking Group	United Kingdom		✔		✔	✔						
Marks & Spencer	United Kingdom		✔		✔				✔			✔
National Grid	United Kingdom		✔		✔	✔						✔
Randgold Resources Ltd	United Kingdom	✔	✔		✔	✔	✔	✔				✔
Redrow	United Kingdom		✔		✔						✔	
Royal Dutch Shell	United Kingdom	✔	✔		✔	✔			✔			✔
Stagecoach Group Plc	United Kingdom			✔	✔						✔	
Standard Chartered Plc	United Kingdom		✔		✔		✔	✔			✔	✔
Synergy Health Plc	United Kingdom		✔		✔						✔	
Trifast PLC	United Kingdom			✔	✔						✔	
Vectura Group PLC	United Kingdom			✔	✔						✔	
Vedanta Resources	United Kingdom	✔	✔	✔	✔				✔		✔	

F&C Investments

reo® VIEWPOINT

JULY 2014

Vicki Bakhshi, Director, Head of Governance & Sustainable Investment
Dawn Wolfe, Associate Director, Governance & Sustainable Investment

ATONEMENT: BANGLADESH'S GARMENT INDUSTRY SEEKS TO BUILD BRIGHT FUTURE

- One year on from the Rana Plaza disaster, many international apparel brands have strengthened programs to ensure leading supply chain policies are adhered to, but underlying incentives for supplier non-compliance remain.
- Improvements in worker salary and right to organize have taken place in the past year; situation remains tenuous.
- Workers and government alike fear brands will exit Bangladesh due to tarnished image and rising competition from Myanmar and Africa.

F&C travelled to Bangladesh as part of a garment industry fact-finding trip organized by Alliance Trust and Morgan Stanley in May 2014. On the ground in Dhaka, F&C had the opportunity to directly engage local suppliers, activists, non-governmental organizations, multi-stakeholder institutions and brands about the pace and impact of safety and worker rights' reform in the garment industry one-year after the country's largest industrial accident. Rana Plaza[1], an 8-storey building, collapsed in April 2013, caving-in on the factories and shops it housed. More than 1,100 primarily garment workers were killed and scores more were maimed. The unprecedented scale of the disaster, on the heels of the nearby Tazreen Fashion fire that killed 117 garment workers, brought into sharp relief the persistent risks to garment production in Bangladesh and the apparent failure of decades of supply chain social audits to ultimately protect workers.

Bangladesh derives nearly 80% of export earnings from the ready-made-garment (RMG) industry.[2] According to the powerful Bangladesh Garment Manufacturers & Exporters Association (BGMEA), the industry's trade body notable for its strong political influence, RMG employs 4.4 million Bangladeshis, over 75 percent of whom are women. RMG is the source of livelihood of more than 10 percent of the country's total population[3]. Given the country's heavy dependence on this industry, calls from many corners of the economy for brands to keep producing in Bangladesh were not surprising. However, in order to stay, government and apparel brands needed to take action capable of addressing the failures that tarnished the "made in Bangladesh" label and exposed the downside of unplanned industry growth that vastly outpaced the creation of infrastructure to support it.

F&C ACTS

On our visit to Bangladesh we met with three local factory owners, the local staff of three major international brands, and nine organizations dedicated to improving worker health and safety in Bangladesh. We also had the opportunity to speak with garment workers at a local "worker café". The wide range of views we solicited in Bangladesh were in some instances contradictory, but key themes did emerge.

> Fully acknowledging that our organized visits offered a view into the best facilities the country's RMG industry has to offer, we note that work place conditions were clean, spacious and organized. Equipment to mitigate environmental impacts and enhance workplace safety were standard and in one instance featured sophisticated Computer Aided Design (CAD) machinery to cut fabric patterns with minimal waste or human interference once designs are programmed. Ever mindful of the fact we did not witness lower-quality facilities that exist in the thousands, it is important to note that examples of excellence are in Bangladesh and role model factories provide substance to visions of the industry's future.

[1] After the Rana Plaza disaster: Transforming factory safety in Bangladesh. Confidential Viewpoint May 2013
[2] Board of Investment, Bangladesh: http://www.boi.gov.bd/index.php/potential-sector/garments-and-textitles. 2011 most current data available.
[3] BGMEA data compilation: http://bgmea.com.bd/home/pages/TradeInformation#.U6sxa7EvAIJ

MEETINGS HELD IN DHAKA:

Suppliers & Brands:
1. Echotex and East Knitting & Dyeing
2. Epyllion Style Ltd
3. Ananta Apparels*
4. Marks & Spencer (M&S)
5. H&M
6. Gap*

Mutli-stakeholder initiatives, Civil Society & Government:
1. Alliance for Bangladesh Worker Safety
2. Accord on Fire & Building Safety in Bangladesh
3. International Labour Organization (ILO) – Bangladesh country director
4. Better Work Bangladesh*
5. British High Commission trade office
6. GreenGrade
7. Impactt Bangladesh*
8. Awaj Foundation*
9. International Finance Corporation, World Bank Group Bangladesh office*

* These meetings were not part of the formal agenda organized by Morgan Stanley and Alliance Trust

Improving worker health & safety and labour rights has climbed the priority list. Action is taking place with an urgency not seen before the Rana Plaza tragedy. As the President of a worker federation affiliated with IndustriALL told us "nobody will accept the outcome of Rana Plaza". According to the International Labour Organization (ILO) Country Director for Bangladesh, the industry is now experiencing an unprecedented level of cooperation, good will and practical action. Last December, the government increased the garment worker minimum wage by 56 percent, though many consider it still below a living wage. The National Tripartite Plan of Action for Fire and Building Safety, as well as the multi-stakeholder Accord on Fire & Building Safety (Accord) and Alliance for Bangladesh Worker Safety (Alliance) initiatives have begun intensive work on the ground. A key first step was harmonization of building codes to allow fire, structural and electrical audits to proceed against a uniform standard. These audits are underway with over 1,300 completed.

In addition, Better Work Bangladesh, a program of the ILO and International Finance Corporation, launched in October. Prior to entering Bangladesh the program required labour law amendments, which were adopted, and greater transparency and consistent application of union registration criteria. While the Accord and the Alliance focus on safe working conditions, Better Work will focus on services and training in industrial relations, wages and working hours, and dialogue between workers and management to ensure that progress is sustainable. The Global Operations Manager of Better Work Bangladesh whom we met with in Dhaka noted that the Bangladesh program will be particularly challenging because the country has no history of worker representation and some corners of the industry strongly oppose it. The factory owners we met with voiced a clear understanding of the importance of sustainability to business growth, but were tentative about increasing unionization and largely appeared to view perks they offer voluntarily, such as meals, medical care, child care, and paid leave above legal requirements as negating the need for unions.

Local brand presence and direct supplier relationships are key risk mitigators. The three brands we met with in Dhaka, **Marks & Spencer, H&M** and **The Gap**, have local staff to oversee supplier relationships and ensure compliance with the brands' supply chain codes. H&M maintains a staff of 400 people in Bangladesh, 30 of whom are dedicated to sustainability. It has a supplier base of 300 factories in Bangladesh and the company made clear that it has an aggressive growth plan in the country. This includes a stated commitment to helping Bangladesh expand its product portfolio and move up the garment value chain. We visited a purpose-built men's suit manufacturer in the Bangladesh Export Processing Zone (EPZ) that currently supplies H&M exclusively. While the garment industry in Bangladesh has largely settled at the low end of the value chain, producing simple items such as t-shirts, this suit factory marks a relatively new phase in the country's garment industry evolution. H&M also engages industry and government on industrial relations and fair wages.

Bangladesh is the sixth largest sourcing market for The Gap Inc., where it sources primarily denim in approximately 60 factories in the country. The company's head of social & environmental responsibility for the region explained that the company takes full responsibility for garment production 'from the moment the scissors touch the fabric until the garment leaves the port'. To gain sufficient control over this process and improve compliance with its quality and sustainability standards, the company has trended toward supplier consolidation and strengthening relationships with fewer, high capacity suppliers. The Gap also reported it does not utilize purchasing agents in Bangladesh, which is an important step in 'shortening' the supply chain. Other innovative steps include giving workers the cell phone numbers of local Gap employees with mandates in fire and building safety, monitoring and remediation. It was clear to F&C that the company's local presence and strategic supplier relationships minimize risks such as unauthorized sub-contracting. However, challenges undoubtedly remain as behavioural changes, not just policing, are necessary. The Gap appears to share this view and described its continual improvement approach.

We met with **Marks & Spencer** local staff in one of the factories it sources from on the outskirts of Dhaka- Epyllion Style Ltd. M&S sources from 55 factories in Bangladesh and, as a signatory to the Accord, all those factories will undergo safey audits. The managing director of supplier Epyllion voiced a clear understanding of the need to improve industry standards in Bangladesh, but also noted that the popular perception of conditions in the country are overly negative and that "over-active compliance" is not always reasonable. We heard similar concerns from other suppliers, where management supports improved standards but does not necessarily welcome additional audits that may be redundant, or worse, contradictory. The director further noted that its strategic relationship with M&S has helped the factory drive sustainability programs among its workers and charge buyers more than can be commanded in factories with lower standards.

In our conversation with workers, job security was the primary concern they voiced.

Shared responsibility is key to meaningful and lasting reform. The government of Bangladesh, international brands, factory owners and workers themselves appear to agree that for the RMG sector to become sustainable long-term in Bangladesh all stakeholders must take action. Brands benefit greatly from the skilled, low-cost labour Bangladesh offers, but have a responsibility to drive up safety standards and efficiency. Equally, the government must act and offer legal protections and enforce minimum standards of practice. One of the labour activists we met was clear that worker training includes rights, and also responsibilities, to ensure a safe workplace. In our conversation with workers[4], the primary concern they voiced was job security. Due to the country's overwhelming dependence on the RMG industry for jobs and revenue it is clearly in Bangladesh's best interest to secure the industry and restore its tarnished image through meaningful reform.

> Bad suppliers cater to bad customers. If brands are not willing to absorb some of the costs associated with higher standards, they will continue to create a market for third tier factories that operate at significant risk to workers.

Despite renewed focus and action on safety, sustained progress is not guaranteed and significant obstacles remain. While the Accord and Alliance have made great strides in evaluating structural safety and beginning to implement worker focused programs such as a hotline pilot and safety training, they have a five-year mandate. They will transition these functions to the government, where they rightfully belong, but it is not at all certain the government will have the capacity and appetite in four years to undertake the work of the multi-stakeholder initiatives. Indeed, one representative we met with voiced concern that the more effective the stakeholders are in carrying out these functions the higher the risk the government will take a back seat as opposed to ramping up its own capabilities. Furthermore, a recent report[5] highlights the key risk of unauthorized subcontracting (when an approved factory sub-contracts out a portion of an order to another factory without the brands' knowledge or approval) will not be effectively ended by brands' "zero tolerance" policies because of the strong underlying incentive to subcontract. Crushing downward price and time pressure applied by brands, coupled with stiff consequences for missing deadlines, leads factory owners to subcontract out as the only way of meeting their obligations. This underscores the importance of rethinking the sourcing model where these pressures are inherent. One factory owner we met with referenced "unhealthy competition" in Bangladesh, whereby some factories compete for business simply by lowering standards, and thus prices. This same factory owner noted that "bad suppliers cater to bad customers", indicating that if brands are not willing to absorb some of the costs associated with higher standards they will continue to create a market for third tier factories that operate at significant risk to workers. This begins to address what may be one of the most intractable problems in creating a safer and brighter future in Bangladesh's RMG industry: *changing the safety mindset of factory owners and workers.*

NEXT STEPS & RECOMMENDATIONS:

- F&C will continue to engage apparel brands on achieving higher safety and worker protection standards in Bangladesh.
- Brands that lack a local presence in Bangladesh, use purchasing agents instead of creating direct relationships with suppliers, and rely exclusively on audits to ensure code compliance are at high risk of production in poor factories. We recommend they take immediate action to address these risks and utilize many good practice examples in the industry.
- A standard brand sourcing model that applies immense downward price pressure and potentially unrealistic production deadlines should be revisited by brands. This applies to global garment production, not just Bangladesh.

If you would like further details on the information in this note, please contact your ***reo***® client director.

[4] As noted in the table, worker consultation was not part of the formal agenda organized by Alliance Trust and Morgan Stanley

[5] "Business as usual is not an option; Supply chains and sourcing after Rana Plaza" by NYU Sterm Center for Business and Human Rights; http://www.stern.nyu.edu/sites/default/files/assets/documents/con_047408.pdf

F&C Investments

reo® VIEWPOINT SEPTEMBER 2014

Kwai San Wong, Analyst, Governance and Sustainable Investment

CHAEBOLS' GRIP DOMINATES GOVERNANCE AGENDA

- F&C travelled to Seoul to discuss corporate governance with companies and regulators.
- We pressed large conglomerates - the chaebols - on improving board composition and the effectiveness of independent directors.
- Regulators showed willingness to reform existing corporate governance code.

Corporate governance problems in South Korea are nothing new. During the economic maelstrom that was the 1997 Asian financial crisis, the International Monetary Fund (IMF) and the World Bank highlighted poor corporate governance as one of the principal causes of Korea's troubles, which led to several high-profile corporate bankruptcies. As a result, the government prioritized corporate governance reform and mandated changes aimed at loosening tight family control of the country's large conglomerates – the chaebols – by improving corporate transparency, strengthening minority protection and enhancing management accountability. The government introduced the Code of Best Practices for Corporate Governance, adopted international accounting standards and enhanced minority shareholder rights, such as reducing the ownership requirement to file derivative lawsuits. Further reforms were undertaken in 2001 and 2003, including mandatory majority board independence and establishment of audit committees at companies of asset size greater than USD 2 billion.

However, the reform momentum waned. The Asian Corporate Governance Association (ACGA), a non-profit organisation advocating good corporate governance practices in Asia, awarded Korea a respectable ranking of 5 among 11 regional stock markets[1] in its 2003 biannual survey of corporate governance quality. Similarly, Asia-focused stock-broker CLSA assigns governance scores to listed companies and in 2003 Korean companies on average achieved the highest scores compared to other Asian companies. But by 2012, Korea had slipped to 8th among the 11 Asian stock markets in both ranking tables.

While Korea has continued to introduce rules and regulations on corporate governance, the country's slow improvements have been overshadowed by the relatively rapid progress in neighbouring countries as well as high-profile embezzlement cases at **Samsung Group, SK Group** and **Hanwha Group**. Economic research has identified a so-called "Korea discount", where South Korean firms have lower equity values than comparable companies in capital markets in Asia due to the poor governance found in chaebols[2]. Furthermore almost 20 years on from the Asian financial crisis, Korea's economy continues to be dominated by the chaebols. Today, these conglomerates comprise about 60% of the Korean stock exchange's market capitalization and if you include subsidiaries, account for more than 90% of total revenue earned in the stock market[3].

F&C ACTS

In March, F&C travelled to Seoul to meet with companies and regulators to discuss corporate governance[4]. Our conversation with companies focused primarily on board composition, effectiveness of independent directors and succession planning. We also heard from regulators their priorities and plans of future developments in corporate governance.

KEY GOVERNANCE CONCERNS FOR FOREIGN INVESTORS INCLUDE:

Circular holding structure
One feature of Korean corporate governance is the circular ownership structure. This allows the families to control the chaebol group with a relatively small stake. For example, according to JPMorgan Chase research, the chairman of Samsung Group and his immediate family holds only a 1.3% stake[5] in the whole group, but through a series of share ownership in related companies the family

[1] The 11 markets are China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.
[2] "Minority Report." The Economist, Feb 2012
[3] CLSA data
[4] Company specific meeting details available to reo clients.
[5] As of April 2013

retains 50.1% of group voting power. **Hyundai Motor**'s family holds 3.6% of shares[6] but controls 51.6% of the company. Circular ownership undermines the principle of one share one vote.

Some large chaebols such as **LG Group** and SK Group have unwound their circular ownership structure. However, this is not common. One company that maintains a circular ownership structure informed us that the company is open to taking steps similar to LG and SK, but only with government tax incentives that would prevent the leakage of family wealth during the restructuring process.

Effectiveness of independent directors

Post-crisis reforms that required a majority of independent directors on corporate boards were crucial, as these external directors oversee management and protect the interests of non-controlling shareholders. Members of controlling families often hold executive positions, but their incentives do not naturally align with other shareholders' as they typically have control over cash flow disproportional to their economic stake in the company. However, it is still rare to find a strong external voice in the boardroom to challenge controlling families. In Korea, it is common to appoint academics and former bureaucrats to the board as they easily fulfil the independence criteria. While F&C does not object to such appointments, it has been our experience that these appointments often lack the business and managerial experience necessary to direct the strategy of the firm and challenge management. F&C is not widely confident in their ability to represent and protect shareholder interest as intended.

We pressed Korean companies to explain the criteria they use to appoint independent directors. Most explained that it is difficult to identify independent directors with managerial and business experience because of the strong lifetime employment culture that fosters loyalty and an unwillingness among executives to sit on the boards of other chaebols. There are some signs of a shift away from this attitude, but it is slow. Although executives from small and medium enterprises (SMEs) can sit on the boards of chaebols, they rarely are appointed as their social status is considered to be inadequate. As a result, Korea's candidate pool for independent directors is extremely limited.

F&C understands this challenge but encourages Korean companies to expand the candidate pool beyond professors, lawyers and former government officials. **Lotte Shopping**, for example, appointed an independent director who is a director at a private equity firm. F&C will press Korean companies to review their recruiting channels of independent directors.

Succession planning

Due to family control at chaebols, succession planning is uniquely complicated. It is also a significant risk for shareholders as a rough transition of leadership to incompetent executives destroys value. The recent resignation of SK Group's former Chairman without a successor calls into question the group's ability to make significant investment decisions during this period. SK has a six-member council now responsible for decision making that previously resided with the Chairman, but not all members sit on SK Group's board and are not accountable to shareholders.

One key learning of our engagement in Korea is that companies largely lack a formal succession plan. There is no question that family members will occupy the key positions – Chairman and Chief Executive – of the firm. One observation we had during our meetings with companies is the immense power of the Chairman to appointment executives, and that the board as a whole is not meaningfully involved in discussing and selecting the right candidates. F&C is encouraging Korean companies to formalise succession-planning processes and involve the nomination committee at a minimum. We shared our expectation that companies report on progress in identifying and training key successors.

Related party transactions

While there are public reporting requirements for related-party transactions (RPTs), Korea is the only Asian market where such transactions do not require shareholder approval. Only approval from two-thirds of the board of directors is required for RPTs related to directors and family members. Korean law requires RPTs to be conducted on a fair basis, and directors who are party to the transactions and those who approve the transactions will have to compensate for the loss, defined as equal to the directors' gains, if these transactions are judged to be unfair. However, third parties or independent directors' opinion on fairness is not required and thus it is unclear how this rule could be implemented. Moreover, all reporting of RPTs is in Korean language only, adding another layer of difficulties for foreign investors to analyse RPTs. During our meeting with regulators, we encouraged greater transparency of RPTs, especially in other more widely understood business languages such as English.

Auditing

It is difficult to confirm audit quality as an outsider, as the auditor's opinion is just a statement in the annual report. However, some signs in Korea should cause investor concern. Over 90% of all listed Korean companies hold their annual meeting in March[7], putting enormous pressure on auditors to complete audits across the economy in a very short amount of time following the fiscal year end in December. As a result, Korean companies have been presenting unaudited financial statements for shareholder approval during annual general meetings (AGM). In March, F&C joined an ACGA-led initiative of 33 institutional investors urging 26 large Korean companies, including **POSCO** and **KB Financial Group**, to ensure that the financial statements presented are final and include the auditor's opinion. Almost all companies acknowledged our concern and are looking for solutions by next year's AGMs.

THEY SAID:

"Auditing is losing its attraction as a profession among graduates. There are signs of an impending skills gap."

Kim Ki-Sik, Korean lawmaker

[6] As of April 2013
[7] ISS data

Vote counting

Tallying shareholders' votes at AGMs is a fundamental task that demonstrates accountability to shareholders, but Korea has not got it right. Votes are generally counted by a show of hands and it is not possible to confirm if foreign investors' votes are counted. Samsung has voluntarily taken the initiative to disclose vote results in general meetings. F&C is encouraging other Korean companies to do the same.

REGULATORY PRIORITIES

In our meetings with Korea's financial regulators including the Financial Services Commission, the Korea Stock Exchange and the Ministry of Justice, we discussed regulatory changes that are underway, including revising the country's decade old corporate governance code, introducing a "comply or explain" approach to the code, requiring that the audit committee be fully independent, restricting voting rights of the controlling shareholder to 3% and allowing multiple derivative suits by minority shareholders. The "comply or explain" approach will potentially have meaningful influence on corporate behaviour, but the extent will depend on the details of the code which remain to be seen. We shared our views with the regulators that shareholder oversight of RPTs should be strengthened and stricter enforcement in cases of embezzlement is needed to reduce moral hazard.

Another positive signs is the recent revision of the voting guidelines of the National Pension Service (NPS) of Korea. The $400 billion public pension fund is influential as it holds approximately 7% of the Kospi benchmark index. NPS now opposes re-election of directors who have engaged in embezzlement or a breach of trust. The fund also votes against directors serving more than ten years on the board or having less than 75 percent attendance of board meetings in a year. NPS's voting decisions will also be made public prior to the shareholders' meeting. This is encouraging, as NPS is effectively setting a minimum corporate governance standard and, given its size and importance in the market, will influence how other local institutional and retail shareholders vote.

As in any market, regulation without effective enforcement will not improve corporate governance. Judges in Korea have been lenient with chaebol leaders out of fear that any adverse judgments against companies will negatively impact the national economy. In our meetings we sensed a slow change in attitude among judges, especially the junior ones. Younger judges are now more likely to uphold the spirit of the law in white collar crimes. This stands in stark contrast to the typical position of older judges who are more concerned about the negative business impact they may create as a result of jailing offenders. While the influence on Korea's court system exerted by these younger judges remains to be seen, their decisions have already sent a strong signal to chaebol insiders that their days of scoffing at the law may be ending.

NEXT STEPS

President Park Geun-hye has passed a number of regulations to restrict the influence and power of chaebols since taking office in 2013. Some of these regulations have enhanced shareholder rights. However, after years of strong growth driven by exports, Korean economy is struggling with high levels of consumer debt and a stagnant property market. It remains to be seen whether President Park can continue to press the chaebol for further reform amidst the economic difficulty. F&C will continue to encourage the government and regulators to stay the course of governance improvements. In the annual shareholder voting season in 2015, F&C will vote against any approving unaudited financial statements. We will also collaborate with other investors to urge regulators and companies to improve the financial reporting process and disclose vote results after shareholder meetings.

For clients with access to F&C's ***reo***® Partner Portal, the full details of the confidential discussion we had with companies in South Korea are available within the Engagement Projects tab under "Asia – Board independence, succession and protection of minority interest".

If you would like further details on the information in this note, please contact your ***reo***® client director.