F&C Investments

RESPONSIBLE OWNERSHIP ACTIVITY REPORT
Q4 2014

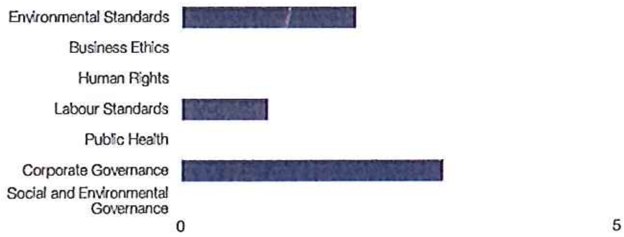
Shropshire County Council

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.

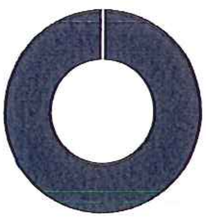
COMPANIES ENGAGED THIS QUARTER

Companies engaged	33
Milestones achieved	6
Countries covered	2

Milestones achieved by issue

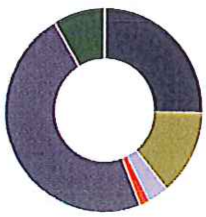


Companies engaged by country



United Kingdom	33

Companies engaged by issue **



Environmental Standards	15
Business Ethics	8
Human Rights	2
Labour Standards	1
Corporate Governance	28
Social and Environmental Governance	5

BMO A part of BMO Financial Group

* ***reo®*** is currently applied to £88.8 billion ($143.9billion / €113.9billion) of assets as at 30th September 2014.

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

F&C Investments CLIENTS FIRST RESPECT ACCOUNTABILITY INNOVATION

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
Afren Plc	United Kingdom		✓		✓	✓						
Anglo American	United Kingdom	✓		✓	✓				✓			
Antofagasta	United Kingdom		✓		✓	✓						✓
Barclays	United Kingdom	✓	✓		✓		✓				✓	
BG Group	United Kingdom		✓	✓	✓	✓					✓	
Booker Group PLC	United Kingdom		✓		✓						✓	
BP	United Kingdom	✓	✓		✓	✓			✓			
Burberry Group plc	United Kingdom		✓		✓						✓	
Cairn Energy	United Kingdom		✓		✓	✓						
Cairn India Limited	United Kingdom		✓		✓	✓						
Cargill Inc	United Kingdom		✓			✓						
Centrica Plc	United Kingdom		✓		✓	✓					✓	
Development Securities	United Kingdom		✓		✓						✓	
Drax Group	United Kingdom		✓		✓	✓					✓	
Galliford Try Plc	United Kingdom		✓		✓						✓	
GlaxoSmithKline	United Kingdom	✓	✓		✓		✓				✓	✓
Hill & Smith Holdings Plc	United Kingdom		✓								✓	
HSBC	United Kingdom	✓	✓		✓		✓				✓	
Hunting plc	United Kingdom		✓		✓		✓				✓	
IG Group Holdings	United Kingdom			✓	✓						✓	
Informa PLC	United Kingdom		✓		✓						✓	
James Halstead	United Kingdom		✓		✓						✓	
Jupiter US Smaller Companies PLC	United Kingdom		✓		✓						✓	
Laird Plc	United Kingdom		✓	✓	✓						✓	
Lloyds Banking Group	United Kingdom		✓		✓		✓				✓	
Man Group	United Kingdom		✓								✓	
Micro Focus International PLC	United Kingdom		✓		✓						✓	
Premier Oil Plc	United Kingdom		✓		✓	✓						
Regenersis Plc	United Kingdom		✓		✓						✓	
Royal Bank of Scotland Group	United Kingdom	✓	✓		✓		✓				✓	
Royal Dutch Shell	United Kingdom	✓	✓		✓	✓						✓
Standard Chartered Plc	United Kingdom		✓		✓		✓				✓	
SThree Plc	United Kingdom		✓		✓						✓	
Synairgen Plc	United Kingdom		✓		✓						✓	
Tullow Oil	United Kingdom	✓	✓	✓	✓	✓		✓				✓

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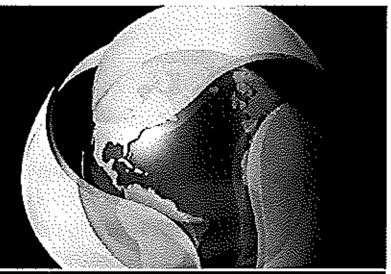

reo® VIEWPOINT OCTOBER 2014

Kajetan Czyz, Analyst, Governance and Sustainable Investment

GLOBAL WARMING MITIGATION GAINING MOMENTUM

- Negotiations accelerate as 120 heads of state meet in New York City
- Multiple initiatives show institutional investor support for decisive action
- F&C engages companies on strategies for transition to low-carbon economy

KEEPING THE SHOW ON TRACK

Approximately 120 heads of state attended the UN Secretary General meeting on climate change in New York in September, making it the largest such event in history. This topped the (in)famous Copenhagen summit of 2009. Ban Ki-moon convened the gathering in order to mobilise political will ahead of next year's key climate summit in Paris, where a legally binding international deal is expected to be signed. The event also attracted high numbers of investor commitments.

Ban Ki-moon's initiative was slightly unorthodox as it was not in the standard negotiating schedule of the UN Framework Convention on Climate Change (UNFCCC). The next important stage in negotiations will be submissions by countries of their reduction pledges in the first quarter of next year. These will be reviewed and negotiations in Paris in December 2015 will aim to strengthen the commitments to make them consistent with the already agreed target of keeping temperatures from increasing more than 2°C above pre-industrial levels. At that point, if negotiations succeed, a legally binding climate treaty is expected to be signed. There is a risk that the Paris summit could be 'another Copenhagen' – a repetition of the failure to agree targets at the Danish 2009 conference, hence the Secretary General's initiative to gather top level support ahead of the Paris talks.

The European Union has already indicated a strong commitment of reducing emissions by 40% by 2030 compared to 1990. China, which is both the world's largest emitter of greenhouse gases and investor in renewable energy, has also pledged to take action by reducing its emissions by 45% per unit of GDP by 2020 compared to 2005 levels. It will reduce coal consumption in its energy mix and aim to peak its emissions 'as soon as possible'. The US Environmental Protection Agency has now, with the Supreme Court's approval, begun regulating carbon emissions from new and existing power plants as well as targeting increased efficiency standards for transport. Should all these pledges actually be delivered and adhered to that would be a significant inroad in slowing global warming. There are fears it may not be sufficient to keep temperatures within the 2°C target.

Another aspect to add is that technological advancements in renewables – such as the 75% reduction in the costs of solar panels over the past three years - is rapidly and materially shifting the economics of transitioning to a low-carbon economy. Developments in this area will be an important factor in how successfully major economies can reduce emissions.

> THEY SAID
>
> "The alarm bells keep ringing. Our citizens keep marching. We cannot pretend we do not hear them. We have to answer the call."
>
> Barack Obama, US President, UN Climate Summit, 22 Sep 2014

INVESTORS PRESS FOR CLIMATE ACTION

The financial sector had been very active during the New York Summit, launching a large number of initiatives aimed at demonstrating investor support for heads of state to act on climate change. These included:

- The launch of the New Climate Economy Report (also known as "Stern 2") which shows how countries at all levels of income can achieve economic growth while combating climate change;
- The submission of a statement from institutional investors on climate risk. F&C contributed to the drafting of the Global Investor Statement, signed by 350 investors representing over $24 trillion worth of assets, which was submitted to the heads of state meeting in New York. It requests rapid and decisive action on creating the

right policy environment for investing in low-carbon infrastructure. Supplementing the statement was a report showcasing leading investor practices from around the world in areas including low-carbon investing, decarbonisation of portfolios and corporate and policy engagement;

- A call led by the World Bank to put a material price on carbon. This statement was co signed by 73 countries and over 1000 companies (representing 54% of global emissions and 52% of global GDP), calling for the introduction of strong carbon pricing regimes globally;

- The Montreal Carbon Pledge, where investors committed to calculating and disclosing the carbon emissions of their portfolios on an annual basis;

- The Portfolio Decarbonisation Coalition (PDC), focused on emission reductions. The project led by the UNEP Finance Initiative has ambitions to convene a critical mass of investors committed to measuring and disclosing the carbon footprint of its portfolios. The aim is for a minimum of $500 billion by December 2015, $100 billion of which is to be 'decarbonized' (i.e. shifted towards low carbon investments). A number of commitments have already been made, which will add up to $31 billion by 2020; and

- The launch of the Low Carbon Investment Registry - a public online database demonstrating examples of low carbon investments made by institutional investors.

> THEY SAID:
>
> "Climate change is more and more recognized as a financial risk and it is our duty, as trustees, to take concrete steps to reduce this risk."
>
> Mats Andersson, CEO of AP4, Portfolio Decarbonisation Coalition launch, 23 Sep 2014

F&C ACTS

F&C took an active part in many of these initiatives including: contributing to the report on investor initiatives and the World Bank's carbon price statement; providing feedback to the New Climate Economy report; and drafting the Global Investor Statement.

F&C welcomes the increase in broader investor engagement on this issue. Long-term investors are at considerable risk from last minute policy reactions trying to either cut emissions or to adapt to their consequences. F&C has been actively engaging policy makers and carbon intensive companies, both directly and through industry initiatives, supporting a holistic and smooth transition strategy towards a low-carbon economic model.

The climate debate has prompted a discussion on the levels of capital currently being deployed in maintaining and expanding fossil fuel supplies. It has been argued that under various low carbon scenarios the potential demand for fossil fuel fuels (oil and coal in particular) will decline sooner than expected. This puts companies' long-term projects at risk of not realising their projected value – i.e. fossil fuel assets may become "stranded".

Over the past 14 months, F&C has engaged 47 companies in 18 countries on this issue of "stranded assets" within the oil & gas, mining and utility sectors. We request companies to disclose the range of possible future scenarios companies use for their strategy planning, and to stress-test the capital expenditure plans against various potential scenarios. These include higher carbon prices, more stringent environmental regulation, and changing demand patterns linked to increased penetration rates of alternative technologies. From our discussions we have learned that companies in the various segments of the energy industry face a very different set of challenges, and that most still fall short of developing systematic ways to address these risks.

Oil & gas companies are facing increased pressure on maintaining their levels of returns and protecting dividends due to significant increased cost and downward price pressure. A weak economic recovery and significant fuel-efficiency gains in transport are reducing demand, and a boom in North American unconventional oil production is increasing supply.

Utility companies, particularly in Europe, have already been experiencing asset stranding of power stations due to both overcapacity (leading to falling wholesale electricity prices), decreasing demand due to a slow economic rebound, and the increasing share of renewables.

Coal mining companies have been hit hardest. The shale gas revolution in the US has wiped off 80% of the sector-wide valuation, and weaker than expected demand from China has resulted in a number of new mining projects being cancelled.

We are seeing increasing evidence that the observed changes in the energy market are structural, rather than cyclical. We will continue to engage companies on their approach to assessing the risk of "stranded assets" as well as support policymakers and industry initiatives in galvanising momentum towards a global climate deal in Paris in 2015.

More detail on our engagement on "stranded assets" and analysis of companies' responses will be provided to ***reo***® clients in a future confidential Viewpoint.

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