

BRIC: Sustainability Holds the Key to Long-term Growth

reo® Research

February 2009



In this report...

- Why sustainability in the BRICs matters to investors
- What companies are doing to respond
- Four recommendations for companies

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1. Our objectives

Encourage companies operating in Brazil, Russia, India and China (BRIC) to:

- **Build a “governance culture”** through adoption of international corporate governance standards, ESG risk management systems, strong business ethics and transparent reporting.
- **Establish environmental management systems** to address climate change, air and water pollution and water scarcity.
- **Safeguard human rights**, through sound relations with local communities and indigenous peoples and provision of good working conditions.
- **Implement the United Nations Global Compact principles**♦¹

F&C’s engagement

As the world’s political leaders confront the global financial crisis, BRIC² governments face the twin challenges of slumping export demand and domestic consumers stung by job losses. Having contributed an average of 43% to global GDP growth since 2000, the BRICs will, in 2009, become even more important to the global economy. Thanks to growth averaging 4.7%, they and other key emerging markets will more than offset the contraction anticipated in the advanced economies, keeping global GDP slightly positive.³

Amidst a welter of broader challenges, sustainability will play a decisive role in driving the BRICs’ long-term growth, including the need to:

- Develop climate-friendly infrastructure to support industrialisation and urbanisation;
- Facilitate entry to the middle class, by mobilising it as a source of home-grown demand, better managing the spoils of natural resources, and reaching the rural poor;
- Protect coastal cities, agriculture and water supplies from the threat of climate change; and
- Ensure that foreign relations help to promote a stable business environment, in which global trade and investment can flourish.

How and whether the BRICs rise to these challenges will impact on investor confidence in their long-term prospects. F&C has therefore turned its focus on key BRIC companies, holding over 20 face-to-face, in-country meetings⁴ in the last year to explore their sustainability practices and press

for improvements. Our conclusion is that unless business and government work hand-in-hand to build a strong governance culture and rise to human rights and environmental challenges, the capital markets will factor this into both country and company valuations. Conversely, investors will increasingly reward BRIC companies that spot and act on sustainability opportunities and risks.

They said...

“We argue that the BRICs dream should be green: these countries will need to play a key role in global efforts to combat climate change, and it is in their own interests to do so. Critically, we think it is in the BRICs interests to reduce their emissions and pollution, and to pursue a cleaner path of development.”

Goldman Sachs Global Economics Research, "Why the BRICs Dream Should Be Green", February 2007.

♦ This symbol ♦ indicates that F&C’s engagement covered the United Nations Global Compact Principles (UNGC) which have been endorsed by over 313 BRIC companies. The full principles are listed on page 10.

² In 2001 Goldman Sachs Global Economics team led by Jim O’Neill called for the world to “Build Better Global Economic BRICs” prompting a debate about the opportunities presented by Brazil, Russia, India and China. This was followed two years later by a paper “Dreaming with the BRICs: The Path to 2050” in which Goldman Sachs calculated that the BRIC economies’ share of world GDP was set to increase significantly in the next 50 years. www2.goldmansachs.com/ideas/brics/index.html
³ Goldman Sachs Global ECS Research, “The 2009 and 2010 Economic Outlook, Complex!”, December 2008.
⁴ F&C has held in-depth meetings on sustainability with the following companies in 2008: Brazil: Banco Itaú, Unibanco, Lojas Americanas, Tractebel Energia SA, Vale, Cia de Bebidas das Americas (AmBev), Natura, Bovespa and Petrobras. Russia: Novatek, LUKoil, Rosneft. F&C has held in-depth meetings on sustainability with the following companies in 2008: Brazil: Banco Itaú, Unibanco, Lojas Americanas, Tractebel Energia SA, Vale, Cia de Bebidas das Americas (AmBev), Natura, Bovespa and Petrobras. Russia: Novatek, LUKoil, Rosneft, Evraz, Norilsk Nickel. India: Tata Motors, Reliance Communications and Reliance Industries. China: China Shenhua, PetroChina, ICBC, CNOOC, Shanghai Industrial Holdings, Ports Design.

2. F&C Acts

Brazil - How much are the planet's lungs worth?

The largest of Latin America's economies, Brazil has jumped to the number ten spot in the world's largest economies, while a strong domestic and institutional investor base and enlightened financial regulation have made it a must-have in any emerging markets portfolio. Poverty and inequality have been reduced significantly over the last decade, due to low inflation and the government's successful Bolsa Familia programme, whereby families receive a monthly stipend for meeting targets such as children attending school. However, rural underdevelopment, urban squalor and weak protections for indigenous peoples' rights continue to cloud the picture, prompting many Brazilian firms to fund philanthropy to assist in community development. Although these donations play an important role in meeting local communities' needs, for sustainable long-term growth companies need to go further still to address Brazil's sustainability challenges. Beyond philanthropic efforts, companies must develop effective management systems that place sustainability at the heart of their business strategies and operations.

Brazil leads the BRICs on renewable energy, with hydropower accounting for more than 80% of its electricity consumption⁵ and a record number of cars fuelled by relatively carbon-efficient sugarcane ethanol. But these gains may be wiped out by Brazil's high rate of logging and conversion of forests to soy cultivation, which destroy the dense natural forests that act as the "lungs" that absorb much of the world's CO₂ emissions. Scientists estimate that in a "business-as-usual" deforestation scenario, 40% of the current 5.4 million km² of Amazon forests will be eliminated, releasing 117,000Mt of CO₂ cumulatively by 2050.⁶ Policy makers in Brazil and elsewhere are increasingly aware of the urgent need to protect the Amazon, which acts as the "lungs" of the planet, absorbing much of global CO₂ emissions. Momentum is therefore growing for forest-rich countries to earn carbon credits from avoided emissions.⁷ At the December 2008 Poznan negotiations on a post-Kyoto global climate agreement, F&C actively called for credible financial mechanisms to facilitate "avoided deforestation", as this is the cheapest, most effective way to slash emissions.♦

Already in 2005, **McDonalds** and commodity giants **Archer Daniels Midland** and **Bunge** had led business support for a moratorium on sourcing soy linked directly to destruction of the Amazon, and launched the Roundtable on Responsible Soy Association, a new industry initiative to address illegal and unsustainable logging. F&C has since encouraged companies sourcing soy for food or transport fuels to ensure their suppliers safeguard valuable forests by backing such industry initiatives, including **Archer Daniels Midland, Bunge, Carrefour, Marks & Spencer, Tesco, Ahold, Brasil Ecodiesel, Petrobras, Shell, BP** and **Neste Oil**. These companies have all either joined the soy roundtable or a new biofuels roundtable, which also aims to promote industry-wide sustainability standards on deforestation.

Local communities

Several Brazilian utilities have recently endorsed a new industry code of practice that aims to promote high sustainability standards. Although a positive step, the code lacks clear guidance on managing local community displacement and human rights training for security forces. In meetings with hydroelectricity providers **Tractebel Energia SA** and **AES Tiete**, F&C has encouraged them to consult early with local communities and indigenous peoples on projects,♦ particularly if relocation and compensation may be necessary. Following disruptions to railroad tracks by the Movimento dos Trabalhadores Rurais Sem Terra (the Landless Workers' Movement) and other problems with indigenous peoples,♦ we have raised similar concerns with mining company **Vale**; the company will move in line with international good practice by piloting an industry toolkit for community development.

They said...

“The global economy is losing more money from the disappearance of forests than through the current banking crisis, according to an EU-commissioned study.”

- Pavan Sukhdev, Deutsche Bank Economist and author of EU-commissioned study into the economics of ecosystems, "Nature loss dwarfs bank crisis," BBC News, 10 October 2008

⁵ Goldman Sachs, Why the BRICs Dream Should Be Green, BRICs Monthly, Issue No. 07/02, February 13, 2007

⁶ Intergovernmental Panel on Climate Change (IPCC), Climate Change 2007, the Fourth IPCC Assessment Report

⁷ Initiated in Bali in 2007, Reducing Emissions from Deforestation and Degradation (REDD), is a new mechanism that is likely to be included in a post-Kyoto agreement, involving payments in the form of carbon credits to encourage forests to be protected.

Russia – Sustainability still on the back burner

Russian equity markets fell sharply in 2008, courtesy of a sinking oil price, Russia's invasion of Georgia and a seizing-up of the banking sector. However, until the world breaks its addiction to fossil fuels, Russia's crude oil, natural gas and coal reserves will continue to prove irresistible to investors. Much will depend on the country's ability to overcome its Soviet legacy, not least a weak rule of law, endemic corruption, deteriorating public health and the government's tendency to help itself to private assets. The Russian state keeps a tight grip on the energy sector⁸ and frequently sits on company boards, while companies are often dominated by a single controlling shareholder, either the state or one of handful of well-connected "oligarchs". Of Russia's top 80 companies, 71% have a controlling stakeholder⁹ – which can mean alarm bells for minority shareholders. Indeed, investor confidence took a sharp knock during 2003-2005, when the government made creative use of tax law to force oil giant **Yukos** into bankruptcy, despatching its CEO to Siberia and leaving foreign investors to nurse over \$30 billion in losses. Much has since been done to strengthen governance, but deep concerns remain about judicial independence and business ethics, while environmental sustainability and community engagement languish rather low down the priority list.

Business ethics

With state influence pervading much of business decision-making, bribery and corruption pose a key risk. F&C has focused on anti-corruption controls, exploring how Russia's extractive giants **Novatek**, **Norilsk Nickel**, **Evraz**, **LUKoil** and **Rosneft** are tackling business ethics.¹⁰ We've pressed for:

- Board oversight of business ethics;
- Effective policies, systems, training and monitoring of controls;
- Confidential whistleblower systems for employees and external business partners, such as suppliers, to alert management to misconduct; and
- Support of the Extractives Industries Transparency Initiative (EITI), a global drive to curb misuse of government revenues from oil and mining in resource-rich countries by promoting fiscal transparency.

Rosneft has embarked on an ambitious effort to modernise its ethics practices, though the jury is out on whether this state behemoth can overcome its deep-seated legacy culture. All five companies described remarkably punitive anti-corruption systems that are comprehensive on paper, but appear to be ineffectual in practice, with whistleblower systems rarely used for fear of retribution. Meanwhile, F&C's dialogue continues with all five companies, especially **LUKoil**, **Novatek** and **Rosneft**, on the question of EITI support.

Sustainability management

The Soviet legacy carries an implicit expectation that companies bear a responsibility to society, though this usually takes the form of social initiatives or decontamination projects rather than an appreciation of sustainability as an integral driver of corporate strategy. While philanthropy has its place, F&C's focus has been to press companies to build a stable long-term business model based on tackling workplace health, climate change and community relations. F&C has also recommended that companies:

- **Establish board accountability for sustainability management:** We recommended that **Novatek** form a sustainability committee to help identify how significant risks and opportunities can drive corporate strategy. We also suggested that **Evraz**, **LUKoil**, **Norilsk Nickel**, **Novatek** and **Rosneft** embed sustainability into their corporate culture by linking health and safety with executive remuneration.
- **Improve disclosure:** We requested that **Evraz** publish targets and performance data on sustainability priorities in its next report. We also encouraged **Norilsk Nickel** and **Evraz** to publish sustainability reports that reflect international standards, the Global Reporting Initiative, and are pleased that **Novatek** has pledged to adopt these.
- **Develop clear climate change policies:** **Norilsk Nickel** has already cut its emissions and is investing in CO₂ reduction technologies, while **Evraz** is a member of a government climate change task force. We have recommended that **Novatek**, **Norilsk Nickel**, **Evraz** and **Rosneft** not only publish emissions data and set reduction targets, but also engage with Russian policy makers to adopt a proactive climate policy. Specifically, we urged these companies to press the Russian government to take a lead on global climate negotiations, develop a strategy for adaptation to the changing climate – particularly as the melting permafrost is causing serious damage to property and the release of vast stores of methane, and to support reform of the Carbon Development Mechanism. In addition, we have pressed **Novatek** and **Norilsk Nickel** to develop formal biodiversity policies, and have recommended that all companies develop procedures for consulting effectively with local communities.
- **Participating in industry initiatives to raise sustainability standards:** We suggested that **Norilsk Nickel** join the ICCM, a trade association composed of leading global mining companies dedicated to improving sustainability practices in the sector, including in biodiversity and local community engagement.

⁸ The Russian government has controlling stakes in 30% of Russia's top 80 companies - "How does corporate governance in Russia stack up against the other BRICs?" Standard & Poor's RatingsDirect, 10 June 2008.

⁹ Ibid.

India – Powering a shining future

With annual growth averaging over 8.5% over the last five years¹⁰ and half its population under 25, India has the right demographics to build a home-grown consumer base in its burgeoning cities. Key beneficiaries include infrastructure (roads, power plants); consumer goods (mobile phones, cars); and petrochemicals and refining. But with a major terrorist attack in late 2008, an election looming in 2009, and the worldwide credit crisis slashing valuations, the incoming government will also face serious challenges: fraught relations with Pakistan, religious extremism, caste tensions and impoverished rural communities – not to mention flooding, water scarcity and disease. F&C has focused on influencing India's emerging giants to develop business strategies that rise to these challenges, including **Reliance Industries, Reliance Communications, Reliance Infrastructure, Tata Motors, Tata Consultancy Services, Dr Reddys** and **HDFC**.

Spotting local problems

We have encouraged **Tata Motors**, creator of the Nano, India's first "mass market" car, to build low greenhouse gas (GHG) emissions into its design and manufacturing. **Tata Motors** has taken its first step towards developing a climate change strategy by backing the Carbon Disclosure Project, and publishing its GHG emissions and reductions plans.♦ Also, in a nation where traffic rules are routinely flouted by drivers and pedestrians alike, we've urged the company to launch safe driving initiatives, so as to protect its reputation and avoid its product being associated with road injuries. And we've pressed **Tata Motors** to address local community concerns about the siting of its controversial Nano assembly plant.♦ Following fierce political opposition, the company has now been forced to delay the launch and relocate – leaving many disappointed and highlighting the growing importance of community engagement at the earliest possible stage.

Vedanta Resources and **ONGC** are two extractives companies facing significant human rights risks, within India and in Myanmar and Sudan, respectively. Following concerns raised by F&C about a new bauxite mine and refinery project in India, **Vedanta** has developed a rehabilitation plan to protect the ecosystem; it is also considering F&C's recommendations to review its approach to community consultation, compensation and relocation. **ONGC** is considering F&C's detailed recommendations for implementing the United National Global Compact Principles, particularly for human rights, and has agreed, for the first time, to discuss its practices in Sudan with investors.

They said...

“The lesson of the Nano is to have more cohesive consultative mechanisms with farmers, giving them a deeper stake in the project, and acquire land [by] consensual rather than coercive means.”

N.K. Singh, Member of Indian Parliament and former Head of India's Planning Commission, 'India urges industry to avoid using farmland', *Financial Times*, 18 November 2008

Climate talks: Will India play ball?

With the US and China both calling for post-Kyoto climate change goals, the worry is that India may be the spoiler. But the next Indian government faces a delicate balancing act: it must ramp up electricity provision to industry and the 50% of households that lack power,¹¹ while protecting its people from the impacts of climate change. Although coal plants are the cheapest, quickest way to boost capacity, they fare worst on climate change impacts, which threaten India with severe food shortages, flooding and damage to farming.¹² In 2008, India launched a new National Action Plan on Climate Change, committing to increasing solar energy, protecting Himalayan glaciers and tightening emissions standards for energy-intensive industries. But the Plan lacks national reduction targets going to 2050 and sufficiently strong incentives to encourage widespread take-up of new green technologies, which threatens to undermine its impact.

F&C believes India needs to mandate adoption of the newest, cleanest technologies, and has encouraged India's leading companies to press the Indian government to support a post-Kyoto deal, including **Reliance Industries, Reliance Communications, Tata Motors, Suzlon, Bharat Heavy Electricals Limited** and **HDFC**.♦ We have highlighted both to companies and in the Poznan negotiations that a post-Kyoto agreement should require middle-income countries to draw up emissions reduction plans by 2020, revise the Clean Development Mechanism to facilitate technology transfer, and ramp up funding for clean technologies and adaptation. **Reliance Industries** has already acted: it recently called on G8 nations to take action on climate change and has engaged in dialogue with the Indian government on its National Action Plan on Climate Change.

¹⁰ Compound annual growth rate, quoted in CLSA, India's trillion-dollar deal: Infrastructure Spending Unleashed, April 2008

¹¹ IPPR, Switched-on India: How can India address climate change and meet its energy needs? January 2008

¹² Acutely aware of the damage that climate change may incur, the insurance industry has recently called for better management of climate adaptation in both emerging and developed markets.

China – The world's workshop tackles pollution and product safety

Pollution costs come home to roost

Feeding the world's boundless appetite for cheap goods has also catapulted China ahead of the USA into the league of top polluters, with 20% of global CO₂ emissions¹³ – and air and water pollution slicing 5.8% off the country's GDP.¹⁴ As climate change melts glaciers, flooding will increase, placing the water supply of one quarter of a billion Chinese at risk by 2050, and spelling trouble for human health, agriculture and food production.¹⁵ In response, the Chinese government has set ambitious targets: to double the share of energy from renewables to 15% between 2006 and 2020, and to quadruple growth by 2020 (from 2002 levels) while only doubling energy use.¹⁶ F&C expects tough new government policies on emissions to drive value, making winners of companies that best adapt to them.

F&C has recommended extractives giants **China Shenhua**, **PetroChina** and **CNOOC** assess climate-related risks and publish a climate change strategy.♦ **China Shenhua** and **CNOOC** have since participated in the Carbon Disclosure Project, marking a first step towards reducing greenhouse gas emissions. **China Life**, one of China's largest insurance providers, is considering our recommendation to factor climate change impacts on property and health into insurance risk models, and develop insurance for individuals vulnerable to adverse weather in China, such as rural farmers whose crops were recently affected by snowstorms.♦ **China Mobile**, the world's largest mobile telephone operator, has also leapt ahead, recently announcing a three-year sustainability strategy and new sustainability committee that will address public health risks associated with electronic waste and electromagnetic fields, as well as a 40% energy efficiency target by 2010.♦

Made in China: A brand we can trust?

Despite a slew of measures to stimulate the economy, China still faces a major challenge: maintaining confidence in the "Made in China" brand. After wage inflation and booming raw material prices squeezed margins, prompting a rash of factory closures, slumping demand has been exacerbated by lingering safety concerns. Following scares in 2007 and early 2008 on exported pet food and toys, scandal has spread to the home market, with tragic consequences as adulterated dairy products have struck the food supply, sickening over 50,000 babies, some fatally – and triggering a harsh, if tardy, government crackdown. F&C has long highlighted to companies that China's reputation for affordable, safe goods depends on credible evidence of high safety and quality standards, and that factories cut corners at their peril.

This incident has shaken consumer trust in both food brands and regulatory supervision. F&C has recommended that **Shanghai Industrial Holdings**, which owns **Bright Dairy**, one of China's major dairy producers, improve board oversight of product safety, tighten traceability through robust audits to spot problems early on, and work with dairy producers and suppliers on higher industry standards to rebuild consumer confidence. F&C has also recommended that toy retailers **Mattel**, **Leapfrog** and **Argos**¹⁷ ensure factories in China monitor product safety closely, by improving early detection of problems, including fraud, and by improving public disclosure of safety management and performance. **Mattel** has since upgraded its product safety systems, while the other companies are considering our recommendations.

They said...

“**Catastrophe figures for 2008 confirm that climate agreement is urgently needed...China...suffered enormous losses amounting to more than US\$21bn due to an unusual cold spell with huge volumes of ice and snow. These had a major impact on the infrastructure in 18 provinces: roads and railways were blocked and in some places destroyed, and the electricity supply collapsed.**”

- The Munich Re Group, Press Release on Natural Catastrophes, 29 December 2008

¹³ Sources: EIA, NEAA and JP Morgan

¹⁴ Source: World Bank and the State Environmental Protection Administration of the Government of the PRC, Cost of Pollution in China, 2007

¹⁵ Dr Rajendra Pachauri, Chairman, Intergovernmental Panel on Climate Change (IPCC), 23rd April 2008, JP Morgan Conference, Beijing

¹⁶ CLSA, European Commission Joint Research Centre and WorldWatch Institute, Powering China's Development, 2007

¹⁷ Owned by **Home Retail Group**

Human rights

Internet usage has boomed, enabling Chinese people to communicate and exchange ideas with Internet users worldwide. However, alarmed by the content of some cyberspace discussions, the Chinese government has ramped up its censorship efforts, and asked companies to hand over private data about Internet users it regards as “threats to national security.” This has posed a dilemma for Internet companies aiming to meet the needs of their growing customer base in China: customers expect their privacy to be protected, yet companies must comply with government orders that can, at times, undermine this commitment. F&C has spent the last 18 months working with Internet companies in China, including **Yahoo**, **Google** and **Microsoft**, to craft a practical response to these challenges, and recommended that companies develop systems to incorporate human rights and privacy protections into their day-to-day decision-making and operating procedures. This culminated in the release of the Principles for Free Expression and Privacy online, the first-ever industry standard specifically aimed at helping Internet companies respond to these challenges.¹⁸

Charter 08: China's homegrown recipe for change

After a year marked by the dazzling highs of the Beijing Olympics and the tragic lows of the Sichuan earthquake and contaminated baby milk, 2008 concluded on an astonishing note: the publication of Charter 08, a manifesto calling for peaceful political, legal and economic reform in China. The government responded with swift, heavy-handed efforts to stifle this group of over 300 Chinese intellectuals, government officials, Communist Party members and dissidents. But as F&C went to press, this

had yet to make a dent, with over 7,000 people signing the statement since its December release. With the 20th anniversary of the Tiananmen Square crackdown looming in June 2009, China enters 2009 with the prospect of falling employment, rising inflation, and an increasingly restive population whose exposure to the global web and access to modern telecommunications pose fresh questions about what further surprises lie ahead.

They said...

“The political reality, which is plain for anyone to see, is that China has many laws but no rule of law; it has a constitution but no constitutional government. The ruling elite continues to cling to its authoritarian power and fights off any move towards political change. The stultifying results are endemic official corruption, an undermining of the rule of law, weak human rights, decay in public ethics, crony capitalism, growing inequality between the wealth and the poor, pillage of the natural environment as well as of the human and historical environments, and the exacerbation of a long list of social conflicts, especially, in recent times, a sharpening animosity between officials and ordinary people... The decline of the current system has reached the point where change is no longer optional.”

- Charter 08, signed by over three hundred prominent Chinese citizens including Communist Party members, government officials, academics and dissidents, December 10, 2008, the anniversary of the Universal Declaration of Human Rights.

3. Assessment and Next steps

While most BRIC companies remain blissfully unaware, a small but growing number are beginning to wake up to the impact that governance and sustainability issues, such as climate change, will have on their own business performance. F&C will continue to raise awareness and press companies to:

- Establish independent boards, anti-corruption controls, transparent reporting and protections for shareholder rights.
- Develop a sustainability strategy that is integrated into the core business, and report meaningfully on its implementation.
- Spot and act on business opportunities to provide solutions to sustainability challenges.
- Develop better management systems for greenhouse gas emissions, pollution control, water consumption, working conditions and human rights.

¹⁸ This was developed by the Global Network Initiative, a collaborative grouping composed of companies and civil society organisations and investors, including F&C.

Appendix

1. **F&C's engagement relating to the United Nations Global Compact Principles (UNGC)**
2. **F&C's engagement and recommendations for BRIC companies**
 - **Local communities**
 - **Climate change**
 - **Disclosure**
3. **F&C's investments in sustainability solutions**

1. F&C's engagement relating to the United Nations Global Compact

F&C supports the United Nations Global Compact Principles and encourages companies to endorse and report transparently on their progress in implementing these. In this report, this symbol♦ indicates that F&C's engagement covered the UNGC.

The 10 principles are:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

<http://www.ungc.org/>

2. F&C's engagement and recommendations for BRIC companies

Local communities

F&C encourages companies to:

1. Ensure that consultations are comprehensive and include not only the legal house – or landowners, but also women, minorities or other people without a legal claim;
2. Carry out consultations through forums that are genuinely accessible to all members of the community, and in a local language;
3. In areas where companies are prevented by law from interacting directly with the host community, ensure that the elected representatives, or other ombudsmen, are rotated periodically to minimise risk of corruption and to ensure a continued link between the community and its representatives;
4. Maintain an ongoing dialogue with the host community to address concerns that emerge as the project develops;
5. Develop compensation mechanisms that have long-lasting benefits to the community and help it build the capacity for self-sufficiency;
6. Ensure that the consultations are comprehensive and address not only the immediate impacts of the mine, such as pollution or relocation, but also wider-ranging issues such as the changes to the socio-economic profile of the community due to the influx of workers, grievance mechanisms, and 'life after the mine'.

Climate change

F&C's engagement with BRIC companies focuses on:

- **Transparency:** Encouraging companies to disclose their greenhouse gas emissions, with participation in the Carbon Disclosure Project a good first step towards this.
- **Active management:** Challenging companies on the credibility of their climate change strategies, and pressing them on how quickly progress is being made
- **Public policy engagement:** Encouraging companies to take a more active public policy stance, and participating as an investor in key public policy consultations.

Improving disclosure

In February 2008, F&C became a signatory to a new Investor Statement on Sustainability Reporting in Emerging Markets. In this statement, global institutional investors representing over \$400 billion in assets under management encourage companies in emerging markets to provide better information on their management of environmental, social, and corporate governance (ESG) issues.

As a signatory of this statement, F&C encourages companies in:

- Providing regular ESG disclosure in financial reports or in specialised sustainability reports, focusing on the most material business risks and opportunities.
- Setting clear goals and disclosing progress towards meeting targets.
- Utilising the Global Reporting Initiative (GRI) framework in preparing their reports. At a minimum, we recommend that companies list exactly which GRI indicators are addressed in their reports as part of a "GRI Index."
- Continually improving reporting based on feedback from key stakeholder groups, including both financial stakeholders and non-financial stakeholders, such as employees, customers, and relevant community and civil society groups.

3. F&C investments in sustainability solutions in the BRICs

In light of changing customer needs and regulatory drivers, F&C has invested in companies offering solutions to sustainability challenges, including:

- **Renewables:** Tractebel Energia and AES Tiete
- **The rise of the consumer:** Banco Compartomos, Hindustan Lever, HDFC
- **Water, sewage and wastewater treatment:** Tianjin Capital Environmental Protection, Shanghai Industrial Holdings
- **Sustainable mobility:** China Railways

Winning gold with F&C

Delivering highly effective investment strategies is just one part of the service we provide. As principled asset managers, we are determined to lead our industry in all aspects of our business.

In 2006 – 2008, F&C were voted winners of the 'Gold Standard' in the Fund Management category. Only a few companies have been privileged enough to win a Gold Standard award, and as such, this is an exceptional achievement. The Gold Standard Awards aim to identify financial services companies that excel not just in service but in five key areas important to consumers of financial products and services:

Financial strength

Ability to meet and exceed customer expectations

Capability

Outstanding expertise and aptitude as a fund manager

Service

Ability to maintain and grow an effective post-sales relationship

Fair value

Assessing whether customers receive great value for money

Trust

Ability to instil confidence in consumers

As a result, the Gold Standards are one of the hardest, most sought after awards in the financial market place.



WINNER



Products

F&C offers a wide range of investment opportunities for pension funds, charities, financial institutions, corporations and other organisations. We offer segregated and pooled portfolio management through a range of onshore and offshore vehicles. These cover developed and emerging markets in equity, bond, cash and property funds.

Please contact us for further details or visit our website at www.fandc.com

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