

# **Ethical Trade**

## **- An Investor Perspective**

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- ◆ **F&C is one of the top ten asset managers in Europe, with £125 billion Assets Under Management**  
(£125.3 billion as at 31.03.05)
- ◆ F&C is a listed company (FCAM) headquartered in London with 8 offices around the world
  - 880 Staff
  - 198 Investment professionals
- ◆ Our main business is active asset management
- ◆ We have a 138 year history of delivering investment solutions to our clients

*We are a leading investor voice on GSRI*

# Governance & Socially Responsible Investment: Our Approach



- ◆ **F&C is a GSRI specialist**
  - Ethically screened funds and mainstream funds
  - 20 years experience, historic strength of Stewardship flagship product
  - Governance and *reo*® cover *all* our equity portfolios worldwide
  
- ◆ **Trend of growing activism of investment community**
  - Governance scandals
  - Slide in share prices
  - Client and regulatory pressure
  
- ◆ **F&C's approach**
  - Responsible ownership is an obligation
  - Engagement makes us better stock pickers

*We focus on issues that impact on shareholder value*

# Shareholders and Ethical Trade: Our Common Interest



## ◆ Getting it wrong: risks

- Liabilities and litigation costs: health/discrimination lawsuits
- Security of supply: production delays
- Relations with regulators: access to markets
- Reputation: “sweatshop” allegations from media/campaigners
- Examples: Wal-Mart, Spectrum Fashions, Biedronka, Exxon Mobil

*Ethical Trade can impact on long term shareholder value*

# Shareholders and Ethical Trade: Our Common Interest



## ◆ Getting it right: opportunities

- Good practice labour standards: productivity
- Strong relations with key suppliers: reduced uncertainty
- Good reputation: secure “license to operate”
- Revenue generation: large brands demand compliance
- Examples: Vodafone, adidas-Salomon, GAP

*Ethical Trade can impact on long term shareholder value*

- ◆ **Company exposure to ethical trade risks can be mitigated by:**
  - Recognition of ethical trade issues
  - Proper management of these

*We expect SEE risks that may impact on shareholder value to be identified, mitigated and disclosed*

## ◆ Indicators of robust management systems:

- Board accountability: oversight of senior management
- Strategy: business case and key SEE issues identified
- Policy: takes account of internationally recognised standards
- Incentives: ethical trade integrated into performance management
- Review: regular performance monitoring and review
- Reporting: balances commercial sensitivity and transparency

*We expect SEE risks that may impact on shareholder value to be identified, mitigated and disclosed*

- ◆ **Indicators of effective implementation**
  - Robust monitoring of highest risk supply chain
  - Sufficiently stretching targets for improvement
  - Capacity building and training
  - Follow up/driving improvement
  - Involvement in industry initiatives
  - Effective engagement with critics
  - Tackling challenging issues e.g. overtime

*We expect SEE risks that may impact on shareholder value to be identified, mitigated and disclosed*

## ◆ Indicators of good disclosure

### Basic disclosure

- Provides context of sector and company
- Describes board accountability
- Explains ethical trade policy
- Sets out ethical trade targets and KPIs
- Describes monitoring systems

### Good practice disclosure

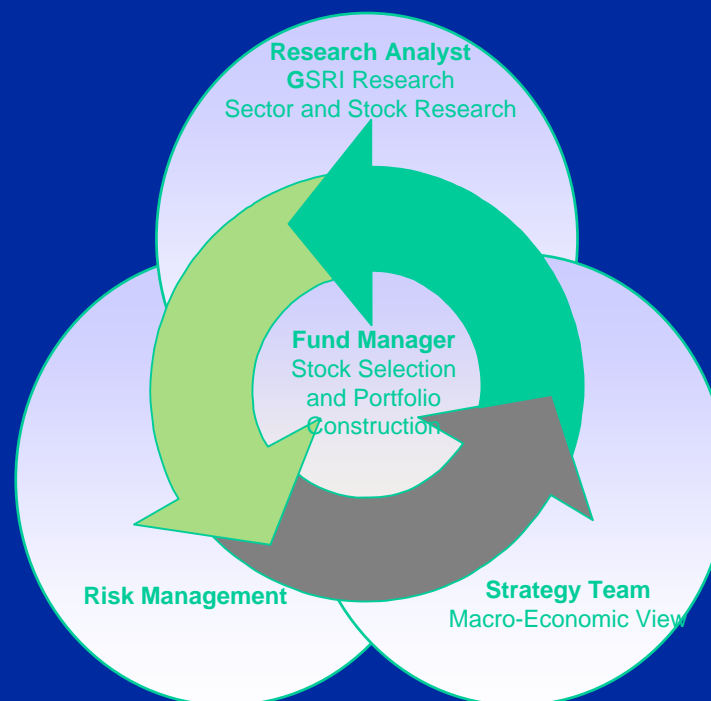
- Sets out business case for ethical trade, key risks and opportunities
- Reports on performance against policy
- Discusses challenges, set backs and success stories
- Reporting takes account of widely accepted reporting standards
- Explains whether remuneration takes account of ethical trade objectives
- Reporting externally verified

*We expect SEE risks that may impact on shareholder value  
to be identified, mitigated and disclosed*

- ◆ Investment approach
  - We aim to add value through regional, sectoral and stock selection
  - We focus on companies whose fair value has not been recognised by the market
  - We believe market inefficiencies create opportunities for us to achieve superior returns for our clients through active management
  - Our investment process integrates GSRI analysis
  
- ◆ Ethically screened funds
  - Ethical trade key factor driving buy-sell decisions
  - Poor practice may result in divestment
  
- ◆ Mainstream funds
  - Ethical trade one indicator among many of quality of management
  - Ethical trade reduces risk

## An Integrated Investment Process

- ◆ Dedicated global equity team of 198 investment professionals
- ◆ Focused portfolio
- ◆ In-house expertise available at all levels of the portfolio construction process
- ◆ Blending specialist skills to generate best investment ideas
- ◆ Specialist GSRI team of 14 people reporting directly to Chief Investment Officer
- ◆ Continuous assessment
  - Challenging macro, sector, theme and stock views

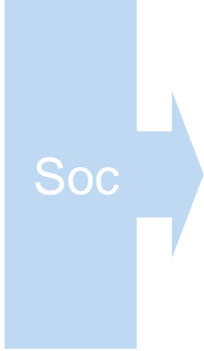
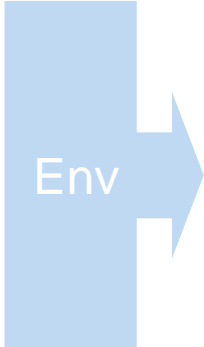


# Case study

## 'Waste and Workers' : the ICT sector



### Benchmarking Results

	<u>"On the Starting Grid"</u>	<u>"The Chasing Pack"</u>	<u>"Race Leaders"</u>
 Soc	Canon IBM Sharp Siemens	Dell Electrolux Motorola Philips Sony	HP Nokia
 Env	Siemens	Canon Electrolux IBM Motorola Philips Sony	Dell HP Nokia Sharp

# Case study

## ICT sector: key concerns



- ◆ Outsourcing
  - Increased supply chain risks
  
- ◆ Legislation
  - EU Directives on electronic waste and hazardous chemicals
  - Product & recycling legislation in Japan and the US
  
- ◆ Litigation
  - Exposure of workers to hazardous chemicals, e.g. IBM Lawsuits
  
- ◆ Reputation Risk
  - Challenge to the myth of the 'clean' sector

# Case Study IBM - Programming Suppliers



IBM Global Procurement: Supply chain social responsibility - Microsoft Internet Explorer provided by ISIS

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## Supply chain social responsibility

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From its inception almost a century ago, IBM has been based on a set of fundamental values. IBM's values shape and define our company and permeate all of our relationships—between our company's people and our shareholders, our clients, the communities where our people live and work, and among our network of suppliers.

Within our supply chain relationships, we know that our company's sizable purchasing power is a unique resource that we must manage responsibly, and we do. IBM spends nearly \$2 billion a year with diverse suppliers, for example, greater than any other technology company. Yet more than managing our spend, we have a responsibility to hold ourselves—and our suppliers—to high standards of behavior. This means complying with all applicable laws and regulations. But it goes beyond that. It entails a strong commitment to work with suppliers to encourage sound practices and develop sound global markets.

We have always maintained an open channel of communications with suppliers to set expectations. Today, in an increasingly interconnected world market, the expectations for all players across the entire supply chain go up. Therefore, we are both reaffirming our existing policies and instituting some new practices, which are spelled out in the following Supplier Conduct Principles. These principles establish for our suppliers the minimum standards we expect from them as a condition of doing business with IBM. IBM will have the right to take action with suppliers that fail to comply with these principles, including terminating our relationship with them.

Our goal is to work with our suppliers to foster full compliance as they, in turn, apply these to their extended sources of supply engaged in the production of goods and services for IBM. We will consider these principles and adherence to them in our selection process and will seek ongoing compliance by actively monitoring performance.

Supply chain social responsibility

[Letter from John Paterson to suppliers \(10KB\)](#)

IBM supplier conduct principles/guidelines

Language	Documents
English	<a href="#">Principles - English (196KB)</a> <a href="#">Guidelines - English (264KB)</a>
Spanish (Latin America)	<a href="#">Principles - Spanish (186KB)</a> <a href="#">Guidelines - Spanish (257KB)</a>
Chinese (Simplified)	<a href="#">Principles - Chinese (683KB)</a> <a href="#">Guidelines - Chinese (911KB)</a>

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April 16, 2004

Dear IBM Supplier,

IBM's commitment to social responsibility is part of our heritage and is reflected in the recently published Corporate Responsibility Report, which I encourage you to access via the Internet: <http://www.ibm.com/ibm/responsibility/>.

With respect to our supply chain relationships, we know that our company's purchase base is a unique resource and comes with a responsibility to hold ourselves—and our suppliers—to high standards of behavior. At a minimum, this means conducting business in compliance with all applicable laws and regulations. More importantly, however, it means striving for continuous improvement.

To this point, we are initiating IBM's Supply Chain Social Responsibility program. This program formalizes a number of past initiatives into a comprehensive plan that will be implemented across our global network of suppliers in a staged fashion. Details on this program are being communicated via the Global Procurement Web site: <http://www-1.ibm.com/procurement/proweb.nsf/ContentDocsByTitle/United+States~Global+Procurement>.

Core to our Supply Chain Social Responsibility program is the establishment of a set of Supplier Conduct Principles which outline the requirements for doing business with IBM. We intend to work with you to help you achieve full compliance to these principles. We expect you to apply these principles not only in your own company but to your extended sources of supply engaged in the production of goods and services for IBM.

These principles are embedded in our supplier selection process, and we will actively monitor suppliers' existing performance against them as a means to promote sound business practices across IBM's extended supply chain. IBM plans to use the services of an independent third party to review supplier facilities and to report to IBM on your compliance with these principles.

Strong social responsibility in the supply chain is very important to IBM. As an organization, we are eager to make gains in the area of supply chain social responsibility, and we look forward to pursuing this with you, our valued suppliers.

Additional information and resources will be forthcoming. In the meantime, I encourage you to read and embrace our Supplier Conduct Principles. If you have questions regarding our program or wish to share with us details of your existing supply chain social responsibility program, please contact John Gabriel, manager, Supply Chain Social Responsibility at: [jmg548@us.ibm.com](mailto:jmg548@us.ibm.com).

Thank you.

John Paterson  
Vice President and Chief Procurement Officer

# Case Study: IBM suppliers



Integrated Supply Chain



## IBM Supplier Conduct Principles



Integrated Supply Chain



## IBM Supplier Conduct Principles: Guidelines



- ◆ **“Traditional Buy side” demand is increasing**
  - GSRI no longer an “add on” or niche market
  - Broad client base demanding responsible ownership
  - Fund Managers/ Analysts more aware of SEE issues
  - Resources committed to SRI by major investors
  
- ◆ **“Traditional Sell side” is responding**
  - Brokers providing specialist GSRI services
  - New focus on impact of SEE management on valuation
  - Resources committed by DrKW, Citigroup, West LB, UBS

- ◆ **F&C would like to see more companies we invest in:**
  - **Adopt a strategic approach**, whereby ethical trade is integrated into the company's overall strategy and into commercial functions
  - **Demonstrate robust management systems**, focusing on managing both risks and opportunities presented by ethical trade issues
  - **Improve implementation**, through capacity building and training, willingness to engage with critics and to tackle more challenging ethical trade issues through industry initiatives
  - **Provide transparency**, balancing commercial sensitivity with sufficient disclosure of issues that may impact shareholder value



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