

# **F&C Management Limited**

## **Part 2A of Form ADV: Firm Brochure**

January 2017

F&C Management Limited is registered in the United States as an investment adviser with the United States Securities and Exchange Commission. Registration does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of F&C Management Limited. If you have any questions about the contents of this brochure, please contact us at +44 (0) 20 7628 8000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any United States state securities authority.**

Additional information about F&C Management Limited is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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**Item 2 Material Changes**

There have been no material changes since the last update in January 2016.

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#### Item 4: Advisory business

BMO Global Asset Management is a trading name of F&C Management Limited and part of the wider BMO Financial Group. BMO Global Asset Management is a global investment organisation providing investment management, services to institutional, retail and high net worth investors around the world. We are a provider of market-leading investment capabilities across multiple asset classes, with a focus on innovating and delivering investment solutions for clients.

We provide our clients access to core competencies such as global and regional equities, large and small cap equities, global rates, investment grade and non-investment grade credit as well as our award-winning liability driven investment, property and Responsible Investment solutions. Our business is built around understanding our clients' objectives and providing innovative solutions to meet those objectives.

F&C Management Limited can trace its history back to 1868, with the launch of the Foreign & Colonial Investment Trust – the world's first pooled investment vehicle that we are proud to continue to manage today. It was acquired by the BMO Financial Group in 2014 which can trace its roots back to the foundation of the Bank of Montreal in 1817, Canada's first bank and the ultimate parent company of the BMO Financial Group.

The combination of the two businesses brought together a shared commitment to delivering client orientated investment solutions capable of delivering clear and desired outcomes. It also brought extensive and complementary investment and distribution capabilities – primarily in Europe - into the group and formed a truly global investment management organisation.

As at 31 October 2016, F&C Management Limited managed approximately US \$22.3 billion<sup>1</sup> of assets for a wide range of insurance clients, institutional investors and private individuals. The BMO Global Asset Management group of companies, including F&C Management Limited, had a total of approximately US \$231 billion in assets under management, and the wider BMO Financial Group, with over 45,000 employees, and providing a broad range of retail banking, wealth management and investment banking products and services to more than 12 million customers, maintained assets of approximately Canadian \$648 billion.

This document and the detail in it relates solely to F&C Management Limited, not the wider BMO Financial Group, unless specifically highlighted.

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<sup>1</sup> \$22.2 billion discretionary and \$0.1 billion non-discretionary.

## Item 5: Fees and Compensation

The fees and expenses for our services will depend on the service provided and may be open to negotiation or based on existing agreements we may have entered into with you. Fees will generally be based on either:

- a basis point fee in relation to the assets under management;
- a charge associated with a particular piece of advisory work or a particular solution provided (e.g. if you ask us to structure a specific transaction we will charge you costs associated with this transaction and these will be linked to the risk of the trade and the cost of doing it); and/or
- a performance fee which will be linked to performance targets which have been set and agreed in the agreement we have entered into with you.

The fees and expenses associated with our governance and sustainable investment services are captured as part of the management fee you pay and the service is therefore part of the broader package that we offer you. We also offer a responsible engagement overlay service for our clients where we do not manage their assets and therefore where there is no associated management fee. In these instances either a fixed fee or a basis point charge will be applied to the value of assets to which the service is applied.

Fees are usually payable monthly or quarterly in arrears and are either deducted from your assets, which are held by your appointed custodian, or billed directly to you. Respectively, the fee, the method of calculation and the frequency of charging can be negotiated before we enter into any formal agreement with you to manage your money, or provide services to you.

The fees and expenses for clients with their own segregated discretionary portfolio management accounts are subject to, and will depend on, the structure of the assets, but may include:

- administration fees;
- brokerage fees; and
- other transaction costs such as the bid/offer spread on non-agency transactions.

Brokerage fees and other transaction fees are discussed in more detail in Item 12 Brokerage Practices.

We review our fee rates regularly and also benchmark our fee schedules against what the market charges, using public information, industry surveys and industry press reports. We aim to ensure that our fees remain competitive whilst reflecting the high quality of our investment products and also the high level of client service that we offer.

We reserve the right to waive or impose different fees or otherwise modify the fee arrangements of an existing client with the consent of that client.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

We charge some clients a performance based fee, that is, a fee based on our performance against targets which have been set and agreed in the client agreement. These will vary from client to client and will be negotiated at the time the agreement is drafted between us.

Potential conflicts of interest may arise due to the nature of performance fees. Such fees may create an incentive for us to undertake investments carrying greater risks. Another potential conflict of interest may arise because we may have an incentive to favour higher performance fee paying accounts or those that pay a performance fee over those that do not.

To manage these risks, we have Performance and Risk Review Committees (PRRC) per asset grouping and an overarching Performance and Risk Review Oversight Committee (PRROC) which monitor investment risk on a regular basis with a view to ensuring that portfolios are not running undue risk. Additionally, we also seek to monitor the fair participation and fair allocation of deals including new issues. Furthermore, we have a policy of requiring staff to disregard any material interest or conflict when advising or exercising investment discretion for you. That is, the policy is to always act in the best interests of the client and in the last resort we may decline to act for you where that is the only alternative.

Other potential conflicts that may arise from us managing both hedge funds with performance fees and more traditional funds with lower fees are crossing “good” assets from traditional funds to hedge funds or poorly performing assets from hedge to ‘traditional’ or long-only funds. Our policies on fair participation, aggregation and allocation are designed to manage these conflicts. Our senior management and our internal audit, risk and compliance teams monitor these key potential conflicts. Our controls over crossing aim to prevent conflicts arising in this area. That is, positions cannot simply be transferred from account to account. Crosses may be made between clients’ accounts but these are generally traded through a broker in the market at a price that is fair to both parties.

## **Item 7: Types of Clients**

Our clients comprise a wide range of insurance, institutional and retail investors, across multiple geographies and jurisdictions. We provide discretionary investment management services to the following:

- Insurance companies;
- Banks;
- Private and investment funds;
- Sovereign and supra-national organizations;
- Pension schemes;
- Trusts and charitable organizations; and
- Corporations and business entities other than those listed above.

Private individuals who are not US Persons and therefore reside outside of the US can invest in our pooled investment funds and investment plans. For the avoidance of doubt we do not make available any of our pooled investment funds or investment plans to US Persons on a public placement basis.

We do not provide investment advice to private individuals based on their individual personal circumstances.

For our institutional clients wishing to have their own segregated mandate, we generally look to a minimum fund size of \$50 million; however, this may be adjusted on an individual basis

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

We offer a broad range of investment strategies across a full range of asset classes, including:

- Global, regional and country specific fixed income (covering corporate bonds, government securities, money market and aggregate strategies across developed and emerging markets);
- Developed and emerging market equities in small, medium and large companies (including strategies focused on environmental, social and governance themes, as well as systematic equity);
- Liability Driven Investment (solutions ranging from our cost-effective Dynamic and leveraged Swap funds, simple hedging Equity Linked products, to the more tailored Bespoke and Segregated service);
- Multi-asset (balanced) and multi-manager (fund of funds) portfolios;
- Private equity fund of funds;
- Listed and direct real estate investment;
- Alternative strategies such as absolute return oriented fixed income, fund of hedge funds and derivatives-based strategies; and
- Exchange Traded Funds (a suite of fixed income and equity solutions).

Excepting passive product, all of these approaches aim to add value through active management based on internal and external research.

We believe that individuals work best as part of a small, focused team. Our investment professionals are therefore organised into tightly knit groups, focused on specific products. Each team is provided with a high degree of autonomy over their investment approach, fostering a strong culture of enterprise and accountability for delivering performance. This approach – of being both large in terms of resource, but entrepreneurial and multi-specialist in terms of structure – is what we describe as a “multi-specialist” fund management model, with individual investment teams applying what they believe to be the most appropriate investment philosophy and process for the particular market in which they invest, based upon specific mandate objectives and guidelines.

Each strategy is designed to provide the investment exposure described in its investment guidelines which in the case of segregated mandates are contained in the Investment Management Agreement. The suitability of a strategy or fund for a particular client depends on their investment requirements and attitude to risk.

As a client you will be exposed to the risks associated with investment in stocks, shares and bonds and you should understand that the value of, and income from, investments can fall as well as rise and that you may not get back the full amount that you originally invested. You should also be aware that the strategy in which you invest will be liable to market movements and should be familiar with the specific risks associated with the strategy in which you are investing and be prepared to undertake those risks. You should ensure you are



aware of all the potential risks specific to your investment portfolio. We have summarised below the key risks.

## General Risks

The following risks are general and apply to all strategies we offer:

- **Market risk:** the value of shares and the income from them is not guaranteed and can fall as well as rise due to stock market and currency movements.
- **Performance risk:** past performance is not a guide to future investment returns and when holdings are sold you may get back less than you originally invested.

There will be a variation in performance between different funds with similar objectives due to the different assets selected. Portfolios will also diverge from their benchmarks depending on these selections. There is no guarantee of the performance of your investment.

- **Inflation risk:** inflation can affect the value of your investment.
- **Fees:** the impact of fees charged on the management of assets may reduce the prospects for capital growth or possibly result in capital erosion.

## Strategy Specific Risks

Our individual investment strategies have different specific areas of investment and investment objectives. These specific objectives may mean that one or more of the specific risks listed below could also apply to your investment.

- **Liquidity risk:** Generally speaking, smaller capitalization and emerging market equities; credit, high yield and emerging market debt instruments; private equity and direct property are less liquid than other asset classes. This means that there may be difficulty in both buying and selling assets and individual asset prices may be subject to short-term price swings. This may result in increased volatility for these assets.
- **Credit risk:** There is always a credit risk associated with investing in corporate bonds. With investments in lower grade corporate bonds there is a higher risk that the issuer will not meet its debt obligations. The higher the credit risk, the greater is the likelihood of a failure to pay interest or capital when due.
- **Exchange or currency risk:** Investments made overseas may not be traded in your base currency and movements in exchange rates may cause the value of your investment to rise and fall.

- **Smaller companies:** Smaller companies and businesses at an early stage of their development carry a higher degree of risk and this means that the value of such investments is usually more sensitive to market movements, which may result in increased volatility for these assets.
- **Concentrated portfolio:** Where a portfolio is concentrated, short-term volatility in the price could be relatively high.
- **Fixed interest securities and interest rates:** The value of portfolios that invest in fixed interest securities may increase or decrease if interest rates change. For example, if interest rates rise, the portfolio value is likely to fall.
- **Sub-Investment Grade Bonds:** Such bonds have a lower credit rating than investment grade bonds and so a higher risk of default and carry a higher degree of risk both to the income and capital value of the portfolio.
- **Ethical screening:** Certain strategies are unable to invest in certain sectors and companies due to the ethical screening that they undertake, which may lead to differential volatility in portfolios containing such strategies.
- **Zero dividend preference shares:** Zero dividend preference shares are entitled to a fixed return of capital at redemption that is set at issue and will not increase. The return is not guaranteed and may be adversely affected by investment performance, however it is protected to the extent zero dividend preference shares are paid out before other shareholders
- **Investment trusts:** Certain strategies may invest in investment trusts. These are public limited companies quoted on the Stock Exchange. The price of their shares depends on supply and demand and is not necessarily the same as the value of the underlying assets per share. It may be higher 'at a premium' or lower 'at a discount'. The discount or premium varies continuously and represent an additional measure of risk and reward. Gearing – investment trusts can borrow money, which can then be used to make further investments. In a rising market, this 'gearing' can enhance returns to shareholders. Correspondingly, if the market falls, losses will also be multiplied.
- **Emerging Markets:** Investments in emerging markets may be more volatile than investments in more developed markets. Many emerging markets do not have well developed regulatory systems and disclosure standards may be less stringent than those of developed markets. The risks of expropriation, nationalisation and social, political and economic instability are greater in emerging markets than in more developed markets. The accumulation and disposal of holdings may be more expensive, time consuming and generally more difficult than in more developed markets. Also, due to the lack of liquidity, volatility may be higher. Many emerging markets are small, have low trading volumes, low liquidity and significant price volatility. Significant changes in the exchange rates of currencies of the countries in which investments are made may occur following investment in these countries. It may not be possible to undertake currency hedging techniques in respect of these currencies. Settlement and custody standards may not be as high and supervisory and regulatory authorities may not be as sophisticated. As a result there may be risks that settlement may be

delayed and that cash or securities could be disadvantaged. Emerging markets may restrict the access of foreign investors to securities. As a result, certain equity securities may not be readily available because the maximum permitted number of or investment by foreign shareholders has been reached. Similarly the outward remittance by foreign investors of their share of net profits, capital and dividends may be restricted or require governmental approval. The fund manager will only invest in markets in which it believes these restrictions to be acceptable. There is however no guarantee that additional restrictions will not be imposed after an investment has been made. Settlement and custody standards may not be as high and supervisory and regulatory authorities may not be as sophisticated. As a result there may be risks that settlement may be delayed and that cash or securities could be disadvantaged.

- **Property:** Certain strategies may invest in property related securities. The value of such securities is likely to reflect valuations of property assets as determined by professional valuers. Such valuations are the opinion of the valuer at a particular time, may not be supported by recent transactions and are liable to revision, up or down.
- **Political and / or regulatory risks:** The value of your investment may be affected by uncertainties such as changes in government policies, taxation, restrictions on foreign investment and on foreign currency repatriation, currency fluctuation and other developments in the laws and regulations of investee countries.
- **Economic risk:** Any investment made may be sensitive to any general downturn in the overall economy or in that entity's industrial sector. Although the fund manager will attempt, through careful selection of investment candidates, to limit the risk associated with general economic conditions, substantial adverse economic conditions might have an impact on the investment assets of your account.
- **Derivatives and Forward Transactions:** Investments in derivatives may increase or decrease the volatility of the value of your investment.
- **Taxation:** Levels and bases of taxation and reliefs from such taxation are subject to change and their value, in certain circumstances, depends on an investor's particular circumstances. Existing and prospective investors should consult their professional advisers regarding potential tax consequences of undertaking particular investments.

The importance of these risks may change in the future.

## **Item 9: Disciplinary Information**

There is no disciplinary information that relates directly to F&C Management Limited, however, there is certain information relating to other companies within the F&C Group, part of the BMO Global Asset Management group of companies, that we would like to disclose as detailed below.

1. The Swedish regulator Finansinspektionen ordered F&C Asset Management plc on 28 April 2011 to pay approximately 550,000 Swedish Krona (at the time, approximately US \$78,000) because of its omission on three occasions during the period May 2007 – May 2008 to report within stipulated disclosure deadlines changes to ownership in Zodiak Television across client accounts that the F&C Group manages. Reports were filed with the regulator as soon as the omissions came to light. The omissions occurred as a result of historical administrative errors in F&C Group's shareholding disclosure process which were subsequently rectified.
2. F&C Portugal, an affiliate of [F&C Management Limited], recently lost an appeal of a June 2016 decision by the Portuguese securities regulator (CMVM) that F&C Portugal breached local statutory obligations due to actions taken by two former F&C Portugal employees on behalf of a local institutional client in 2008 and 2009. The CMVM's decision is not connected with, nor does it impact in any way, any other business units of BMO Global Asset Management or their underlying clients. The CMVM imposed non-material fine on F&C Portugal."

#### **Item 10: Other Financial Industry Activities and Affiliations**

F&C Management Limited is one of a number of investment firms in the F&C Group and is affiliated to each of these firms through the common ownership by F&C Asset Management plc. F&C Asset Management plc is a wholly owned subsidiary of BMO Global Asset Management (Europe) Limited, itself, a wholly owned subsidiary of the Bank of Montreal.

A common governance structure applies across each firm within the F&C Group and the senior management persons also control the strategy and direction of each of these entities. In summary these firms are:

- F&C Asset Managers Limited;
- F&C Management Limited;
- BMO REP Asset Management plc;
- F&C Investment Business Limited;
- F&C Managers Limited;
- F&C Fund Management Limited;
- F&C Portugal S.A.;
- F&C Netherlands B.V.;
- Thames River Capital LLP; and
- Thames River Multi-Capital LLP.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

We expect our employees to share the commitment to the highest level of integrity in the conduct of our business. Integrity and ethics have always been a significant part of the way we conduct business. Operating with a strong sense of integrity is critical to maintaining trust and credibility with our customers, partners, employees, shareholders and other stakeholders.

Upon joining BMO Global Asset Management, employees sign their agreement to abide by the wide-ranging policies of BMO Global Asset Management, of which the Code of Ethics is one part. Monitoring compliance with the code is considered to play a part in the employees' annual appraisal process and part of an employee's bonus is determined by this appraisal, which considers their performance and contribution to the investment team and to BMO Global Asset Management as a whole.

In accordance with our Code of Ethics, we have rules and policies regarding individual and peer responsibilities, as well as responsibilities to our employees, to our clients, suppliers, shareholders and other stakeholders. They include:

- Compliance with laws, rules and regulations (including insider trading laws);
- Fraud and malpractice;
- Protecting BMO Global Asset Management's confidential and other proprietary information and that of our customers and vendors;
- Protection and proper use of company assets;
- Treating BMO Global Asset Management employees with respect;
- Dealing with conflicts of interest;
- Political activity;
- Promoting full, fair, accurate, timely and understandable disclosure in financial reports and other public communications;
- Confidentiality of Information;
- Protecting the environment and social responsibility; and
- Encouraging the reporting of any unlawful or unethical behaviour.

Specific ethical aspects are also contained in BMO Global Asset Management's Corporate Values which we strive to reflect in how we behave day to day.

Our Corporate Values:

- Clients: we put our client's first, adding value and building relationships.
- Accountability: for performance in delivering, and indeed exceeding, all of our clients' objectives.
- Innovation: constantly challenging and improving the way we do things for the benefit of our clients and ourselves.
- Respect: integrity and trust forms the cornerstone of all our activities

The BMO Global Asset Management cultural values and all rules and policies are accessible to employees on the company Intranet - Focus. Commitment to the values is reinforced through employee surveys and individual performance management process. We are happy to supply further detail on our Code of Ethics on request.

### **Participation or Interest in Client Transactions**

We are committed to fair dealing and integrity in everything that we do. We operate on the basis that clients' interests are placed before our own and our policies, procedures and processes reflect this principle.

The above said, this is not to say that we will never have interests which conflict with our clients' interests or with our duties owed to clients and in this regard we have established policies and procedures designed to identify, mitigate and manage any such conflicts (e.g. a Conflicts of Interest Policy, Personal Account Dealing Policy, Market Abuse Policy, Restricted Dealing Policy, Gifts Benefits and Corporate Hospitality Policy). These include organisational and administrative arrangements and controls designed to safeguard the interests of clients.

### **Personal Trading**

We allow our employees to carry out personal account transactions for their own account and this could cause a conflict with our clients' interests however this is mitigated through our internal Personal Account Dealing Policy which applies to all employees, including contractors, secondees and temporary members of staff.

The overriding principle in our personal dealing policy is that our clients' interests come first. Our Personal Account Dealing policy is designed to ensure that employee dealing is undertaken in such a way that it avoids actual or potential conflicts of interest, that employees do not abuse their position of trust and responsibility and do not take inappropriate advantage of their position.

The PA Dealing Rules generally require the pre-approval of proposed trading. Black out periods before and after client trading and a ban on short-term trading and trading in derivative instruments are in place. A list of restricted investments is maintained and checked prior to any personal account trade being authorised

Any employee whose personal dealings breach the letter or spirit of these rules may, at the discretion of the Chief Compliance Officer, be prohibited from dealing on their own account and may be required to surrender any profits which resulted from the offending trading.

A copy of the rules are given to every employee on commencement of employment, or on any amendment to the rules. Compliance with these rules form part of the employee's contract of employment. To assist in the Compliance monitoring of employee transactions, employees are required to disclose personal securities holdings upon commencement of employment with the firm and annually thereafter.

## Item 12 Brokerage Practices

The committee that is responsible for counterparty approval and monitoring is the Counterparty Credit Committee (CCC). The CCC is responsible for the appointment of counterparties and the subsequent monitoring and review of credit limits for all counterparties. The CCC also sets the derivatives policy for BMO Global Asset Management and monitors all appropriate risk and performance indicators of derivative activity.

All new counterparties are subject to a due diligence process in which the counterparties' legal and regulatory status, financial strength and anti-money laundering arrangements are verified and any contractual documentation is assessed for its suitability to ensure that our clients are appropriately protected.

The assessment of creditworthiness utilises research provided, amongst others, by our credit analysts, external rating agencies such as Moody's, Fitch and S&P and data providers such as Bloomberg, Markit and Reuters and considers, but is not limited to, the following factors:

- External credit ratings from Moody's, Fitch and S&P;
- Ownership structure and potential guarantees; and
- Capital adequacy, Asset quality, Profitability, Liquidity, Operating environment.

The CCC also obtains the following documentation during the process:

- Latest audited annual reports (covering at least two financial years).
- Proof of regulatory status.

Counterparties / brokers are differentiated with respect to the credit risk resulting from different instruments and as such are higher for transactions creating direct credit exposure. Along with our credit analysts' research, we use an internal rating model for approving and subsequent review of our counterparties and guarantors (if applicable).

The CCC meets formally on a monthly basis, and more frequently if required, to consider adding new counterparties / brokers, evaluate all dealing counterparties and to remove or reduce limits for those which have undergone an adverse credit migration, or where dealing performance has been inadequate. Changes to the list of approved counterparties will occur whenever a counterparty meets or ceases to meet our criteria. We formally monitor and compile a report on every transaction, evaluating, amongst other things, the dealing performance of the counterparty. This process is used to include new counterparties / exclude underperforming counterparties from future transactions.

We have both added and removed entities from our list of counterparties / brokers based on performance in execution, commitment to showing prices and trading capability. In cases where there have been serious credit concerns, we have, in consultation with our clients, reduced exposures to individual counterparties due to credit issues, by means of novations, intermediations or close-out of positions.



## Research and Other Soft Dollar Benefits

We execute transactions on behalf of our clients with a number of selected counterparties. In the normal course of business we may enter into Commission Sharing Arrangements (CSAs) whereby the counterparty agrees the research portion of commission associated with a transaction and to use this to discharge the cost of certain eligible third party research services related to the execution of transactions on behalf of our clients and the provision of investment research to us for the purpose of assisting with the provision of investment management services. The services received under such arrangements are directly relevant to and assist in the cost-effective provision of management services by us and are consistent with practices in the markets in which we do business. These arrangements are based on, and comply with relevant regulatory provisions.

In accordance with the rules of the UK regulator, the Financial Conduct Authority, we will not enter into such Commission Sharing Arrangements on behalf of clients unless the types of goods and services provided are:

- Related to the execution of trades on behalf of the clients; or
- Comprise the provision of research;
- Do not constitute goods or services which the Financial Conduct Authority has specified do not satisfy the requirements of the Financial Conduct Authority rules in respect of such arrangements; and
- Will reasonably assist us in the provision of its services to clients on whose behalf orders are being executed.

Where the goods and / or services relate to the execution of trades on behalf of clients, we shall ensure that the relevant goods and / or services are:

- Linked to the arranging and conclusion of a specific investment transaction (or series of related transactions); and
- Provided between the point at which we make an investment or trading decision and the point at which the investment transaction (or series of related transactions) is concluded.

Where such goods and / or services relate to the provision of research, we shall ensure that the relevant research:

- Is capable of adding value to the investment or trading decisions by providing new insights that inform us when making investment decisions for our clients;
- (whatever form its output takes) represents original thought, in the critical and careful consideration and assessment of new and existing facts and does not merely repeat or repackage what has been presented before;
- Has intellectual rigour and does not merely state what is commonplace or self-evident; and
- Involves analysis or manipulation of data to reach meaningful conclusions.

Our quarterly research assessment process provides a framework for the valuation of equity research, which encompasses input from all members of our fundamental equity teams. The results of the vote determine how each team's budget will be distributed amongst their research providers. Each Desk Head has responsibility for the management of their team's research budget and for ensuring that payments represent both absolute and relative value for money.

Clients are provided with a Comparative Disclosure Report bi-annually, which provides a client specific analysis of the trades by counterparties, the amount of commissions generated on those trades and the services received in exchange for these commissions.

The central Dealing team have responsibility for ensuring best execution at all times and therefore have full discretion about how and where to place orders. We employ a third party Transaction Cost Analysis (TCA) provider to measure the Dealing teams performance across asset classes. The Commission & Transaction Cost Analysis Committee have responsibility for oversight of processes around Use of Dealing Commissions and Commission Sharing Agreements. Our Compliance, Internal Audit and Risk teams independently carry out various monitoring of firm-wide transactions and commissions. We do not participate in directed commission agreements.

### Item 13 Review of Accounts

On a monthly basis our Performance Review and Risk Oversight Committees meet to formally review the performance and investment risk of investment desks including:

- Comparison of performance versus benchmark showing monthly, quarterly, year to date, one, three and five year returns;
- Comparison to peer groups where relevant showing monthly, quarterly, year to date, one, three and five year returns;
- Consistency in performance and identify of any outliers;
- Where relevant investment policy changes to previous month, outlook on the markets and expected changes;
- Ex ante risk, whereby ex ante tracking errors are reviewed against internal targets or client limits for representative portfolios; and
- Query any performance or risk data provided in order to be investigated by the product control or risk teams.

Reports reviewed in the committee meetings are provided by the following specialist teams who also ensure independent monitoring:

- The State Street Performance Analytics team: calculates portfolio returns, delivering these on a monthly basis to the BMO Global Asset Management Product Control and investment teams, and senior management. Their detailed analysis covers absolute and relative performance, dispersion, risk and peer group comparisons.
- The Investment Risk Oversight team: also produces a comprehensive report on the portfolio active risk positions. This is in addition to the daily monitoring used by the portfolio managers. This report includes detailed risk attribution.

In particular, the Investment Risk Oversight team is responsible for:

- Monitoring the active risk taken by BMO Global Asset Management portfolios;
- Analysing the sources of risk taken in each portfolio and checking they are consistent with the fund manager's investment strategy; and
- Checking that portfolios' risk is consistent with investment performance objectives;

The continuous monitoring of client portfolio active risk positions is a daily function at BMO Global Asset Management. Risk is quantified in the following ways:

- Risk statistics (portfolio volatility, ex ante tracking error, value at risk, portfolio beta)
- Deviations from benchmarks (per stock, sector, country, duration, quality, currency, etc.)
- Portfolio biases (style, market capitalisation, momentum, etc.)
- Compliance with client guidelines.

Risk statistics are reported internally by the Investment Risk Oversight team on a monthly basis. The team acts strictly independently from the Fund Managers to ensure adequate monitoring of the risk taken within portfolios.

### **Portfolio monitoring**

In addition, the Mandate Compliance team checks all client portfolios on a daily basis to ensure daily, post-trade compliance with mandate restrictions. This team uses the ThinkFolio system to ensure that all mandates are run in-line with the client's pre-agreed limits. ThinkFolio is a compliance system which monitors all the agreed limits of the mandates managed by BMO Global Asset Management. Every active or passive breach will immediately be communicated to the relevant portfolio manager or, in the event of a breach of mandate, to both the allocation team and the responsible account manager.

### **Institutional Client Reporting**

We place great importance on maintaining and developing a good relationship with our clients. As part of this, we aim to provide institutional clients with an excellent standard of service, tailored to meet their requirements. We can provide a comprehensive package of reports on your portfolio and reports are available in hard copy or email.

Typically, these will include:

- Monthly valuation of the portfolio;
- Monthly list of transactions carried out during the month;
- Monthly cash statement, showing the movements on the account during the month;
- Quarterly report on the activity and performance in the last quarter;
- Quarterly report of the voting actions taken at company meetings for your holdings;
- Quarterly report on transaction costs incurred for the portfolio;
- Quarterly investment outlook, giving our view on the global investment scene; and
- Annual audited report on our control policies and procedures ("AAF 01/06 (formerly known as "FRAG 21/94)").

We review regularly the content of our reports to ensure that they still meet high standards and are relevant to the nature of the mandate.

**Item 14: Client Referrals and Other Compensation**

This section is not applicable to us as we do not compensate client referrals.

**Item 15: Custody**

This section is not applicable to us as we do not have custody of our US advisory clients' funds or securities.

## **Item 16: Investment Discretion**

Our main business is investment management. Clients appoint us to manage their assets as described in the investment management agreement and therefore we have investment discretion over clients' assets. Before we assume this authority, however, a formal process is followed for all new clients.

Firstly, a client director is appointed to each new client. They will have responsibility for managing the client's on-going relationship with BMO Global Asset Management and for checking that all the client's requirements are met by the company.

The Transition Manager supporting the client directors in the on boarding will verify that all relevant business units (including the fund management and operations teams) are informed of the details of each new client so that the accounts are set-up on the in-scope IT applications. The Transition Manager then receives confirmation from the business units that the accounts have been set-up in time for the commencement of investment activities.

Money laundering detection and Know Your Client procedures include the requirement to verify the identity of all new clients with official documentation and obtaining an authorised signatory list. An electronic checklist is completed to verify that such documentation is obtained.

From the details received from the new client, the client director checks that a client classification is established based on the client's investment objectives and risk profile. This is documented and appears in the client's investment management agreement (IMA) so that the correct regulatory protections are afforded to the client.

Each new IMA is reviewed by the legal department and a contract sign-off form completed as evidence that the IMA is compliant with legal requirements and current regulations, before the IMA is signed by authorised signatories of both parties.

The client management team captures all the client's requirements including investment objectives, benchmarks, restrictions and guidelines in the IMA. The agreement is signed by authorised signatories of BMO Global Asset Management, as per the authorised signatory list, and the client before the commencement of investment activities.

The Transition Manager completes an electronic checklist to verify that investment activity cannot commence on a new client's portfolio until:

1. the IMA has been completed and signed by both parties, or issued in line with local regulations, and
2. the commencement date of the IMA has been reached.

Communication is maintained between the client director and the new client to verify that their requirements are met. All communications (correspondence, meetings, etc.) with new, potential and existing clients are recorded by the institutional business team in a CRM system, Salesforce.

A checklist is completed by the client management team to verify that the client's account has been set-up correctly on the investment accounting systems, and the client's stock and cash holdings have been received and recorded on the client's account.

A report on the opening book values of all transferred assets is prepared by the operations team prior to being sent to the client. Any discrepancies are followed up with the client and resolved.



## Item 17 Voting Client Securities

Corporate governance is the framework that underpins how companies are directed, managed and controlled. We consider that good corporate governance acts as a fundamental safeguard for long-term shareholder interests and as part of this we vote in every company in which we invest except where we deliberately issue instructions not to vote due to the presence of shareblocking.

Our voting policies are applied to all portfolios under our management<sup>2</sup>. However each of our institutional clients have ultimate control over the determination and execution of their own voting policy. We will recommend a voting stance to our clients on the basis of these policies, but will defer to clients in individual cases where they choose to vote otherwise. In cases where an individual client's voting preference is at odds with our recommended position this will be applied solely to that client's fund and shall not apply to the voting instructions issued on behalf of our other client portfolios.

Any such voting request from a client can be communicated to us through the client director who will be responsible for the client's account.

Voting records are published on our website on an ongoing basis after votes are executed, along with detailed explanations for voting decisions taken.

As part of our commitment to good corporate governance we also prepare annually a series of Corporate Governance Guidelines to guide our voting activities. These Guidelines are intended to give companies a practical sense of how we are likely to vote on their stock, and they outline our thinking on individual issues and resolutions. We update these Guidelines every year and send these to companies in which we invest on behalf of our clients and to companies in the portfolios of our reo® clients.

In applying our policies and guidelines in our voting, we seek to evaluate each company's case on its merits, and rely on judgment and dialogue with companies to ensure a reasonable and pragmatic outcome. While we strongly encourage companies to adopt commonly-accepted standards of good practice, we also appreciate that exceptions may be legitimate in some cases and are open to taking special considerations when so warranted.

F&C Management Ltd uses the voting platform of a third party proxy voting agent, Institutional Shareholder Services Inc. ("ISS"), to execute voting rights. The ISS system is used to identify forthcoming company meetings, and it records holdings information to ensure that our voting decisions are communicated to custodians in time for them to be registered at company meetings. There is a formal contract between F&C Management Ltd and ISS in which the responsibilities of the two parties are clearly defined.

Details of our proxy voting policies and procedures can be provided on request.

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<sup>2</sup> There are certain exceptions. Separate governance policies currently apply to some assets managed by LGM Investments, Pyrford International, Thames River (Thames RiverCapital LLP and Thames River Multi-Capital LLP), F&C Portugal S.A. and BMO Real Estate Partners. In some cases clients may not mandate us to vote or engage within a segregated account

**Item 18: Financial Information**

This section is not applicable to us as we do not require or solicit prepayment of more than six months or more in advance.