

F&C Management Limited

Part 2A of Form ADV: Firm Brochure

21 April 2011

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

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Item 2 Material Changes

This annual update to our brochure has been revised to meet new format and content requirements which are applicable to all registered investment advisers. Accordingly, information is presented in new ways and the brochure includes some information that was not required previously. We encourage you to read the brochure in its entirety.

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Item 4: Advisory business

The F&C group is a diversified investment management group with a heritage spanning more than 140 years. F&C Management Limited is part of the F&C Group and is a company through which we perform part of our advisory business in the United States. The remainder of our advisory business in the United States is carried out by Thames River Capital LLP which is also part of the F&C Group.

While many investment managers are owned by financial services conglomerates, such as banks or insurance companies, we are an independent, publicly held group, with our parent company, F&C Asset Management plc, listed in the United Kingdom on the London Stock Exchange. We are focused exclusively on advising and managing investments for our clients.

We can trace our origins to the launch of the Foreign & Colonial Investment Trust ("FCIT") in 1868 – the world's first ever publicly listed pooled investment vehicle – and an investment vehicle we are proud to continue to manage today. We currently operate from offices in eleven countries and as at 31 December 2010 manage US \$165.6 billion¹ of assets for a wide range of insurance clients, institutional investors and private individuals which collectively represent 3 million underlying savers.

Our activities are focused in three main areas:

- **Fund Management:** we provide investment management services to a wide range of institutional and retail clients, across multiple asset classes and jurisdictions;
- **Investment Advisory and Investment Solutions:** we provide varied investment advisory and investment solutions to our institutional client base; and
- **Governance and Sustainable investment:** we provide a number of services for our institutional and retail clients that relate to ethical investing and responsible shareholder voting and engagement.

We are able to tailor our investment services to the needs of our clients. Client requirements and restrictions are incorporated into the agreement we have with our clients prior to any services taking place.

¹ \$160.9 billion discretionary and \$4.7 billion non-discretionary

Item 5: Fees and Compensation

You will be charged a management fee which relates to the services we provide of managing your assets as well as the provision of any other related advisory services that we may provide you with. Fees are usually payable monthly or quarterly in arrears and are either deducted from your assets directly or billed to you. Irrespectively, 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.

In addition to management and performance fees (see Item 6), you may pay other fees or expenses in connection with your account or fund investment. In the case of an investment in a fund, these fees and expenses are disclosed in the offering memorandum of the relevant fund and are costs incurred by, or payable to, the fund and not F&C Management Limited. These costs may include (but are not limited to):

- custody fees;
- administration fees;
- company secretarial fees;
- directors fees;
- redemption fees;
- regulatory license fees;
- auditors fees;
- fund establishment costs and legal costs;
- brokerage and prime brokerage fees; and
- other transaction costs such as the bid/offer spread on non-agency transactions.

The fees and expenses for clients with their own segregated fund(s) are subject to, and will depend on, the structure of the fund(s) but may include:

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

The fees and expenses for our investment advisory and investment solutions services will depend on the advice or service provided and will be open to negotiation or will be based on existing agreements we may have entered into with you, and these 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
- a performance fee which will be linked to 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, however, 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 a basis point charge will be applied to the value of assets to which the service is applied.

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

For some fund clients, we may have discretion to charge an initial subscription charge in respect of a fund investor's subscription. Although we do not advise on such funds' initial or ongoing suitability for investors, third party marketers or other investment advisers may do so. This may create a conflict of interest as the subscription charge payable to the third party marketers may give them an incentive to recommend investment funds based on the level of their compensation rather than on your needs. We seek to manage this conflict by fully disclosing the ability to charge such a subscription charge in the relevant Fund's Offering Memorandum.

We review our fee rates on an annual basis 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. In addition each fund reserves the right to impose different fees on future investors.

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. That is, a performance fee may be payable by you to us at the conclusion of a performance period and performance fees may be paid on unrealized gains that are not subsequently realized. 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 a Portfolio Review and Risk Committee and an Investment Management Committee which both 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. In addition, disclosures are made in Fund Offering Memorandum and/or client agreements. 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 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 monitors 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 generally provide investment advice and discretionary investment management services to the following:

- Independent financial advisers;
- Banks;
- Private and public funds and investment funds;
- Sovereign and supra-national organizations;
- Pension and profit sharing plans;
- Trusts, estates and charitable organizations;
- Corporations and business entities other than those listed above.

Private individuals can invest in our pooled investment funds and investment plans. 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 fund, we generally look to a minimum fund size of \$50 million; however, this may be adjusted on an individual basis. For investors with less than \$50 million we have a number of pooled funds available for investment. For individual private clients, minimum investments will vary depending on the investment fund or investment plan, however, this could start at the price of one share or unit in one of our funds as priced at the time of investment.

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 markets equities in small, medium and large companies (including strategies focused on environmental, social and governance themes);
- Multi-asset (balanced) and multi-manager (fund of funds) portfolios;
- Private equity fund of funds;
- Listed and direct real estate investment; and
- Alternative strategies such as absolute return oriented fixed income, fund of hedge funds (offered through our Thames River subsidiary) and derivatives-based strategies.

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 objectives (in the case of funds, in the Prospectus and, in the case of segregated mandates, 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 stock market movements regardless of how well the fund manager performs 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. These will be described, in the case of funds in the Prospectus and, in the case of segregated mandates, in the Investment Management Agreement, however 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 you sell your holdings you may get back less than you originally invested, regardless of how well we have performed.

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.
- **Capital risk:** if you choose to use our regular withdrawal facility, you should be aware that these payments constitute a withdrawal of capital and should growth in your plan be insufficient to cover the payments, you will suffer some capital erosion. There may also be capital gains tax implications to these withdrawals and professional advice should be sought before any action is taken.
- **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. You should also read, in the case of funds, the Prospectus and, in the case of segregated mandates, the Investment Management Agreement for a full description of the potential risks applicable to your investment.

- **Liquidity risk** – Generally speaking, smaller companies and shares in emerging markets are traded less frequently than larger ones. This means that there may be difficulty in both buying and selling shares and individual share prices may be subject to short-term price swings. Additionally the amount by which the strategy diverges from, or under / over performs, the Index may be higher than for other strategies.
- **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 means that the amount by which the strategy diverges from or under / over performs the Index may be higher than for other strategies.
- **Concentrated portfolio** – Where a portfolio is concentrated, short-term volatility in the price could be relatively high which means that the amount by which the fund diverges from or under / over performs the Index may be higher than for other funds.
- **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.
- **Ethical screening** – Certain strategies are unable to invest in certain sectors and companies due to the ethical screening that they undertake. This may mean that they are more sensitive to price swings than other funds.
- **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. Hence the level of gearing needs to be carefully judged and monitored to produce a benefit.
- **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.
- **Interest rates** – The return on any investment in money markets investments is related to interest rates. If interest rates rise, the return is likely to rise, and if they go down, it is likely to fall.

- **Structured investments** –These carry the risk of derivative investment, however, the majority of portfolios offered by F&C are managed specifically to keep the risks to which the investor is exposed as low as possible. While derivatives can mean a loss of money, they are mainly used in these cases to hedge risk out of the portfolio. This does, however, mean that the performance may vary from that of the benchmark more than that of an unstructured portfolio.

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 that we would like to disclose as detailed below.

1. F&C Alternative Investments (Holdings) Limited ("F&C AI"), an F&C group subsidiary, is currently involved in a commercial dispute with two individual members of F&C Partners LLP, in which it has a 60 per cent interest. This relates to an attempt by the individual members to exercise put options requiring F&C AI to acquire their interests in the partnership, which F&C AI believes they did not have the right to do under the terms of the LLP Agreement. A case is currently underway within the High Court in England to determine whether the exercise of the options was valid and to consider a counter claim and unfair prejudice petition issued by the individual members.
2. The Swedish regulator Finansinspektionen has ordered F&C Asset Management plc to pay approximately £50,000 because of its omission on three occasions during the period May 2007 – May 2008 to report within stipulated disclosure deadlines changes to ownership in Zodiac 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 was rectified. F&C has submitted an appeal and is currently waiting to hear back from the Swedish administrative courts.

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, the parent of the F&C Group. It follows that a common governance structure applies across each of these firms 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;
- F&C Reit Property Asset Management plc;
- F&C Managed Pension Funds Limited;
- F&C Investment Business Limited;
- F&C Managers Limited;
- ISIS Investment Manager plc;
- F&C Fund Management Limited;
- F&C Partners LLP;
- F&C Reit Corporate Finance Limited;
- F&C Portugal S.A.;
- F&C Ireland Limited;
- F&C Netherlands B.V.;
- F&C Asset Management Asia Limited;
- Thames River Capital LLP; and
- Thames River Multi-Capital LLP.

Whilst there are a number of investment firms in the F&C Group there are no perceived conflicts of interests between these firms as each is governed, managed and run collectively with a view to enhancing the return of the parent of the group, F&C Asset Management plc.

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 F&C, employees sign their agreement to abide by the wide-ranging policies of F&C, 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. One third of an employee's bonus is determined by this appraisal, which considers their performance and contribution to the investment team and to F&C 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 you, our client, suppliers, shareholders and other stakeholders. They include:

- Compliance with laws, rules and regulations (including insider trading laws);
- Fraud and Malpractice;
- Protecting F&C's confidential and other proprietary information and that of our customers and vendors;
- Protection and proper use of company assets;
- Treating F&C's 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 behavior.

Specific ethical aspects also contained in F&C's cultural cornerstones are:

- Client Focus;
- Accountable Performance;
- Commercial Innovation; and
- Mutual Respect.

The F&C cultural cornerstones, and all rules and policies are accessible to employees on the company Intranet - Focus. Commitment to the cornerstones is reinforced through the annual employee survey 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. Given the nature of our business as a dedicated asset management group and which is not part of a bank, we do not consequently have a corporate finance or brokerage arm and do not deal for our own account. We do not and cannot therefore recommend securities to clients where we have a material financial interest in that security ourselves and we do not and cannot invest in securities ourselves that we also recommend to our clients.

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 your interests come first. They are 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, a ban on short-term trading and trading in derivative instruments are in place. A list of restricted investments is held and checked prior to any signatory authorising a trade.

Any employee whose personal dealings breach the letter or spirit of these rules may, at the discretion of the Head of Audit, Risk & Compliance, 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 and is reinforced annually via the Declaration of Compliance with Policies and Procedure which employees must sign and return to the Audit, Risk and Compliance department who monitor adherence to these policies. 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

We have two committees that are responsible for counterparty approval and monitoring.

- the Credit and Counterparty Approval Committee (CCAC); and
- the Derivatives Committee.

The CCAC is responsible for the appointment of counterparties and, where appropriate, the subsequent monitoring and review of credit limits for all counterparties, and the Derivatives Committee sets the Derivatives Policy for F&C 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, operational capability and anti-money laundering arrangements are verified and any contractual documentation is assessed for its suitability.

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.

The CCAC also obtains the following documentation during the process:

- Certificate of Incorporation or equivalent;
- Proof of regulatory status; and
- Latest audited annual report.

There are no standard minimum creditworthiness criteria as these are differentiated with respect to the credit risk resulting from different instruments and as such are higher for transactions creating direct credit exposure.

The CCAC meets formally on a monthly basis, and more frequently if required, to evaluate all dealing counterparties and to remove those which have undergone an adverse credit migration, or where dealing performance has been inadequate. All approved counterparties are screened for credit rating, their financial situation and letters of guarantee. They are also checked for the ability to deal and process trades efficiently.

Changes to the list of potential counterparties will occur whenever we feel a bank 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 investment bank counterparty. This process is used to include new counterparties / exclude underperforming counterparties from future transactions.

We have both added and removed banks from our list of counterparties 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 exposure to individual banks 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 brokers. In the normal course of business we may enter into Commission Sharing Arrangements (CSAs) whereby the broker agrees to set aside a proportion of the commission earned on transactions and to use this to discharge the cost of certain permitted services related to the execution of transactions on behalf of our clients and the provision of investment research to us. 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 apply across all of the companies in the F&C group and are also based on, and comply with relevant UK regulatory provisions.

In accordance with the rules of the UK regulator, the Financial Services Authority (FSA) 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 FSA has specified do not satisfy the requirements of the FSA 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 such decisions about the Portfolio;
- 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 Investment Management Committee monitors transactions, while our Internal Audit, Risk and Compliance teams independently monitor portfolio activity and highlight any inconsistencies.

CSAs are reviewed quarterly when fund managers vote on standard commission payments. The fund managers are encouraged to differentiate their vote to focus on those brokers who are adding significant value through their research. The votes are combined across the whole equity team and the percentage of votes then equates to the percentage of total commissions paid that will be received by each broker in the following quarter. This ensures transparency and clarity. It also means that brokers making a particular effort with us will be able to see a meaningful change in commissions received in a relatively short time frame.

We provide institutional clients with a Comparative Disclosure Report on a bi-annual basis which is an analysis of the transaction costs incurred in the management of their portfolios.

We are committed to obtaining best execution for our clients and therefore do not participate in directed commission agreements.

Item 13 Review of Accounts

On a monthly basis our Portfolio Review and Risk Committee (“PRRC”) meet to formally to review the performance and investment risk of each investment desk including:

- Comparison of performance versus benchmark on monthly, quarterly, year to date and 12 month horizon;
- Comparison to peer group where relevant and available on monthly, quarterly, year to date and 12 month horizon;
- Consistency in performance and identify of any outliers;
- Investment policy changes to previous month, outlook on the markets and expected changes;
- Ex ante and ex post risk profile, whereby ex ante tracking errors are reviewed against internal targets or client limits for representative portfolios;
- Turnover level for representative portfolios;
- Query any performance or risk data provided in order to be investigated by the performance or risk department; and
- Investment breaches.

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

- The Performance Analytics team: calculates portfolio returns, delivering these on a monthly basis to the investment teams and senior management. Their detailed analysis covers absolute and relative performance, dispersion, risk and peer group comparisons.
- The Investment Risk 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 and the APT pre-trade risk report. This report includes detailed risk attribution to both the stock selection and asset allocation level.
- The Charles River Investment Compliance team: checks all client portfolios on a daily basis to ensure daily, post-trade compliance with mandate restrictions. This team uses the Charles River system to ensure that all mandates are run in-line with the client’s pre-agreed limits. Charles River is a compliance system which monitors all the agreed limits of the mandates within F&C. 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.

In particular, the Investment Risk team is responsible for:

- Monitoring the active risk taken by all F&C portfolios;
- Analysing the sources of risk taken in each portfolio and checking they are consistent with the fund manager’s investment strategy;

- Checking that portfolios' risk are consistent with investment performance objectives;
- Working with investment desks in managing the risk in their portfolios.

The continuous monitoring of all client portfolios and active risk positions is a daily function at F&C. Risk is quantified in the following ways:

- Risk statistics (portfolio volatility, ex ante tracking error, ex post tracking error, 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 team on a monthly basis. The team acts strictly independently from the Fund Managers to ensure adequate monitoring of the risk taken within portfolios.

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 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;
- Annual audited report on our control policies and procedures ("AAF 01/06 (formerly known as "FRAG 21/94)"); and
- Annual audit certificate for your auditors.

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 F&C and for checking that all the client's requirements are met by the company.

The Client Services team supporting the client directors will verify that all relevant business units (including the Front Office 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 Client Services team 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 Services team captures all the client's requirements including investment objectives, benchmarks, restrictions and guidelines in an IMA. The agreement is signed by authorised signatories of F&C, as per the authorised signatory list, and the client before the commencement of investment activities.

The Client Services team 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 an electronic repository for client related documentation, ProTrak.

A checklist is completed by the Client Services 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.

Our voting policies are applied to both our retail and institutional client portfolios. 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.

The resultant voting record is published each month, along with detailed explanations on our website. Alongside the public report, we produce a tailored confidential report for institutional clients only. The purpose of this report is to give clients an in-depth picture of direct one-on-one engagement with the company and to do so privately so as not to undermine its dialogue and relationship with each company. These reports are provided quarterly basis and clients have the option of publishing it if they wish.

As part of our commitment to good corporate governance we also prepare annually a series of Corporate Governance Guidelines for a number of key jurisdictions around the world 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 the companies in which we invest on behalf of our clients and to the 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 uses the voting platform of a third party proxy voting agent, Broadridge, to execute voting rights. The Broadridge system is used to identify forthcoming company meetings, and it records holdings information to ensure that F&C's voting decisions are communicated to custodians in time for them to be registered at company meetings. There is a formal contract between F&C and Broadridge in which the responsibilities of the two parties are clearly defined.

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

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.