REPORT TO: **PENSION INVESTMENT SUB-COMMITTEE OF THE POLICY AND RESOURCES COMMITTEE – 02 JUNE 2014**

REPORT ON: **SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT**

REPORT BY: **DIRECTOR OF CORPORATE SERVICES**

REPORT NO: 246**-2014**

1 PURPOSE OF REPORT

This report reviews the progress by the Fund Managers regarding the positive engagement Policy on Environmental, Social and Corporate Governance approved by the Sub-Committee on 17 November 2008.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information contained within this report with regard to the activities of the Fund Managers during the six month period ended 31 March 2014.

3 BACKGROUND

On 17 November 2008 the Sub-Committee approved a revised Policy on Environmental, Social and Corporate Governance. This policy recognises the over-riding fiduciary duties but encourages the managers to engage with companies. They are requested to summarise this engagement activity quarterly. The key areas continue to be Employee Care, Human Rights, Sustainability and the Environment.

4 ALLIANCE BERNSTEIN

Alliance Bernstein's engagement activities over the last two quarters to 31 March 2014 is shown at Appendix 1.

5 BAILLIE GIFFORD

A summary of engagement activities over the last two quarters to 31 March 2014 is shown at Appendix 2 and their Annual Governance Review 2013/14 is attached with their quarterly investment report.

6 FIDELITY

Appendix 3 contains the Environmental, Social & Governance Reports for the last two quarters.

7 LGIM

The Corporate Governance Annual Report for LGIM is attached with the quarterly investment report.

8 OVERALL CONCLUSION

The managers have continued to develop their strategy in this area and link more closely with the long-term effect on share value.

The fund is still committed to following the United Nations Principles of Responsible Investment.

9 **POLICY IMPLICATIONS**

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

The Fund's policy on Socially Responsible Investment requires its investment managers to engage with companies on Sustainability and the Environment and Employee Care and Human Rights.

10 **CONSULTATIONS**

The Chief Executive and the Head of Democratic and Legal Services have been consulted in the preparation of this report.

11 **BACKGROUND PAPERS**

None

MARJORY M STEWART
DIRECTOR OF CORPORATE SERVICES **16 JUNE 2014**

APPENDIX 1

ALLIANCE BERNSTEIN – SOCIALLY RESPONSIBLE INVESTMENT UPDATE

Global Diversified Value Portfolio – Engagement Examples, Fourth Quarter 2013

Advanced Semi-conductor Engineering - Taiwanese company that provides semiconductor packaging and testing services

Background: Local press reported that the company's K7 plant in Kaohshing had discharged toxic wastewater into a key irrigation stream on 1 October 2013. The company had been ordered to suspend operations by the Environmental Protection Bureau of Kaohsiung city government within 10 days. The share price fell sharply on the news. This was reason for use to engage with the company.

Outcome: We established that the incident had genuinely been an accident and not intentional as implied by the original press report. The company has taken appropriate measures to fix the problem. After the initial drop, the share price stabilized after the company took appropriate measures.

Norilsk Nickel - a Russian nickel and palladium mining and smelting company

Background: Owner / senior management were in New York and offered us a meeting.

Outcome: We spoke about what Norilsk is doing to reduce emissions and clean up the environmental damage that has been done since the 1930s. We discussed what commitments they have made and the amount of CapEx they would be spending. We were somewhat disappointed in the response. During the last meeting with Norilsk Investor Relations (IR) team in Q1 2013, we discussed specific projects, capital commitments and emission reduction targets that they had put in place. In this meeting, the management were backing off from these specific commitments. Now they are saying that they are currently analyzing emissions levels /damage and evaluating different environmental plans to cope with this. They will have a more formal plan in Q1 / Q2 2014. It seems that the IR team (which has been replaced) overreached their authority when they discussed specific plans in the last meeting. While disappointing that progress is less advanced than we had thought, they do appear to be committed to making progress. We will continue to hold the stock and monitor the environmental situation.

Global Diversified Value Portfolio – Engagement Examples, First Quarter 2014

Hewlett-Packard -

Background: Hewlett-Packard had been criticized for overpaying for the acquisition of Autonomy plc in 2011 which resulted in a multi-billion dollar write-down. A campaign was administered by CtW Investment Group, which works with pension funds sponsored by unions affiliated with Change to Win, to oppose two directors deemed most responsible for the continuing poor oversight and lack of accountability.

Outcome: We had discussions with CtW to fully understand their concerns. We also engaged with Hewlett-Packard management and the Chairman of the board to hear their response and their plans to resolve the evident problems. We were given indications that there was a likelihood that the two directors targeted by the CtW vote-no campaign would resign before the next annual meeting in order to ensure a smooth transition as opposed to sudden departure.

Based on these discussions, we chose not to vote against the directors at the April 2013 shareholder meeting. We believed change was expected and did not want to give the impression to the public that a shareholder revolt was occurring as that could cause an unwanted distraction to management and place negative pressure on share price. Following the shareholder meeting, the two directors narrowly received majority support. However, an announcement was made that these two directors would leave the board within a few months. The Chairman also stepped down from that role, but he will remain a director. We were not surprised by the outcome and we feel the inherent distraction from these announcements should be manageable. No adjustments were made to our forecasts, but we continued to monitor the impact of the changes on the rebuilding and recovery of the company.

In March 2014 we engaged with the company Chairman Ralph Whitworth to discuss not only the company's performance and strategy, but also the upcoming shareholder meeting. There were two directors up for re-election whom we felt had also been responsible for the acquisition of Autonomy plc. We discussed board succession planning, the skills metric they use, and the role of the Chairman within the board. As we did not get an indication if and when these two directors would step down, we voted against them. We determined that the impact of an against vote to management stability would be minimal versus the previous year when management stability was very much in question. Overall, they received around 75% support at the meeting. Most other directors received near 98% support. We will continue our dialogue with the company surrounding these issues, but did not make a change to our company forecast.

<u>GlaxoSmithKline (GSK) –</u>

Background: In July 2013 allegations were made by Chinese authorities that GlaxoSmithKline (GSK) funnelled up to 3 billion Yuan ($490 million) to travel agencies which were partially used to facilitate bribes to doctors and officials. Less than 4 percent of GSK's sales are generated in China, but GSK employs 7,000 staff and has five factories and a research centre based in the country. GSK said its drug sales in China during the third quarter 2013 sank 61%. The following quarters, sales declined to a significantly smaller degree.

We wanted to understand three points regarding the bribery allegations:

- What had happened exactly in China?
- What would be the consequence for the firm's Chinese operations and for the company as a whole?
- Was this representative of a wider company issue with the risk of similar allegations elsewhere?

Outcome: We are monitoring the situation closely and engage with the CFO and/or CEO at least once a quarter to answer these issues. As of the last update in 1Q 2104, GSK still was not fully aware of what precise charges the Chinese regulators would bring. It appears that much of the alleged wrong doing came from companies hired by GSK in China as opposed to GSK employees. GSK has launched an internal investigation in China, as well as hiring a third party to look into internal practices and procedures in China. The China situation also led the company to start an internal investigation of all of its divisions world-wide to ensure that sales policies and procedures are in fact being followed.

Even though it still is not exactly clear what happened, we do not believe the Chinese bribery allegations are an indication of wider company issues. The company has policies and procedures in place and aims to act under a code of ethics that goes above and beyond the laws and regulations in any single particular region. For example, in China doctors often receive rebates from pharmaceuticals companies if they prescribe their medicine. GSK opposes this and applies their best governance practises globally. Our research suggests that GSK has strong internal controls and is going through an appropriate re-verification process as a precautionary measure. We do not expect any significant long term impact ON GSK's ability to operate in China: it is worth noting that the sales practices of almost every major pharmaceutical company are now being investigated in China.

We are monitoring allegations of bribery in other countries. We believe that they are a combination of the internal audit process and the fact that when a company becomes a target in one region, politicians / regulators in other regions typically focus their sights on that company in other regions.

BAILLIE GIFFORD – SOCIALLY RESPONSIBLE INVESTMENT UPDATE

GLOBAL ALPHA GOVERNANCE ENGAGEMENT - Quarter Ended 31 December 2013

Atlas Copco

Atlas Copco is potentially the most sophisticated company we own on behalf of clients in terms of 'sustainability' being an everyday part of what it does. Its stated aim is to: "reduce cost, minimise risk, increase productivity." Implementing this is far from simple. The company has operations in parts of the world where corruption is a norm and compliance with human rights conventions or environmental standards are not respected. We had a conference call with the Vice President Corporate Responsibility in December. These risks are acknowledged and taken seriously. We will continue to stay up to date with the work Atlas Copco is doing in this area.

British American Tobacco

As part of an executive remuneration consultation, we participated alongside other shareholders in a collaborative engagement organised by the Association of British Insurers (ABI). The company was proposing an increase to the annual bonus opportunity for senior management by introducing an individual performance multiplier. Management are already very well remunerated relative to peers and shareholders were concerned that the amendments were unnecessary and would not provide appropriate pay-for-performance. Following discussions, the Remuneration Committee decided to incorporate the bonus multiplier within the existing plan, therefore maintaining the quantum of awards at current levels. This was a satisfactory outcome for both the company and shareholders and is a good example of effective collaborative engagement.

First Republic Bank

We had a call with the CFO and the head of IR to discuss a new long-term incentive plan (LTIP) for CEO Jim Herbert. In April we engaged with the company ahead of the 2013 AGM regarding concerns over large one-off equity awards made during 2012 to the CEO and COO. Based on these concerns we abstained on the executives' compensation and encouraged improved practices going forward. Therefore, we were pleased to hear on this recent call that the company will implement a new LTIP for 2014 which incorporates several of our recommendations. These include a simplified structure, appropriate performance conditions and an extended vesting period. We are reassured by the company's response to shareholder concerns and intend to support the compensation policy at the 2014 AGM.

GLOBAL ALPHA GOVERNANCE ENGAGEMENT - Quarter Ended 31 March 2014

Amazon.com

Amazon is a company we all know well and very simplistically there are two aspects to the business; the IT and innovation side, and the logistics aspect - warehouses and distribution. We are currently speaking to the company about the different challenges and corporate risks that each of these generates. Engagement is ongoing.

DIA

We spoke to Dia, the Spanish discount supermarket chain, ahead of its AGM. Board composition, remuneration, the supply chain and the operational energy consumption were discussed. This followed engagement with this company last summer; disclosure could improve and we will continue our engagement following the AGM.

eBay

We had a conference call with Carl Icahn ahead of the eBay AGM. He had filed a proxy statement with the SEC and was keen to speak to a number of eBay's institutional shareholders. He wants two new independent directors to be elected to the board and to prompt a partial IPO of PayPal. We are discussing the details of the proposals. The meeting is in April 2014 and so our voting decision will appear in the second quarter 2014 Governance Report.

First Republic Bank Corp

Following our discussions with the company over the past year regarding executive compensation, we wrote to the Compensation Committee to commend them on the diligent manner in which they engaged with us. Within the US market it is uncommon for companies to consult with shareholders during the construction of new incentive plans. Accordingly, First Republic's actions are very encouraging. We intend to support the new plan at the 2014 AGM and look forward to future engagement opportunities.

FLIR Systems Inc

FLIR is a leading designer, manufacturer and marketer of thermal imaging systems. We had a call with the Chief Finance Officer to discuss the company's decision to grant sizeable one-off awards to two of its senior executives following the appointment of the new Chief Executive. The awards were made to secure their retention after neither of the individuals was selected for the CEO position. Although one of the executives has subsequently left the company and his award has lapsed, we explained our concern that these awards do not provide alignment with shareholders and serve to undermine the existing compensation policy. As a result, we intend to oppose the executives' compensation at the upcoming AGM. Although we are not supportive of this form of award, the company understood our rationale.

Jyske Bank AS

In recent years, we have opposed Jyske Bank's regular requests for authority to issue equity with and without pre-emptive rights, as we believe the potential dilution to be excessive. We have also engaged extensively with the company to encourage amending the requested authorities. Accordingly, we are pleased that the company reduced the proposed authorities in line with our recommendations for this year's AGM. In addition to supporting the resolutions, this is a positive development in Jyske's governance practices and is consistent with our clients' best interests.

Samsung Electronics Co

We joined a collaborative engagement initiative in 2013. The issue was that shareholders of Korean companies are asked to approve unaudited financial information without knowing the auditor's final opinion. Samsung has changed the practice and as an intermediate solution included the Auditor's Statement when sending out the AGM Notice to shareholders earlier this year. We supported all resolutions at the AGM.

UK PORTFOLIO GOVERNANCE ENGAGEMENT - Quarter Ended 31 December 2013

British American Tobacco

See Global Alpha engagement update.

Burberry Group

Many UK-listed companies are consulting us prior to their 2014 AGMs when we will have a binding vote on remuneration policy. The case of Burberry highlights some of the challenges this will create. The policy vote will be triennial so flexibility needs to be built into the structure. We cannot support a policy that allows for discretionary one-off payments and fails to specify strategic targets or how they will be measured. We are currently engaging with Burberry on these aspects of its policy. Although the Burberry AGM will not take place until July 2014, as the policy stands we will not be able to support it. Our engagement with the company is ongoing.

UK PORTFOLIO GOVERNANCE ENGAGEMENT - Quarter Ended 31 March 2014

Standard Chartered

Engagement on Standard Chartered's proposed structure to deal with the EU rules on remuneration in the Capital Requirement Directive is complete; the final report has just been published. We are currently discussing how we should vote as the variable pay component has been reduced to comply with CRD IV but this is compensated by the use of allowances. The bank is required to comply with EU rules, although all of its operational activities are in Asia and Africa. This provides challenges. This issue is complex and not easy for the banks or for portfolio managers or governance staff trying to determine a satisfactory decision for all involved. Our voting decision will be reported in the second quarter 2014 Governance Report.

APPENDIX 3

FIDELITY WORLDWIDE INVESTMENT – ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORTS

QUARTER ENDED 31 DECEMBER 2013

ENVIRONMENTAL

Subject - Shipping Emissions

Background / Investment Case -

Energy efficiency and the reduction in CO2 emissions from shipping go hand in hand with sensible business practice, reducing fuel consumption saves on the bottom line. If vessels can be developed with lower energy consumption it is beneficial from an environmental footprint and to the owners and operators.

Emissions from the global shipping industry amount to c.1 billion tonnes a year, accounting for 3% of the world's total Green House Gas (GHG) emissions and 4% of the EU's total emissions. Without action, emissions are expected to more than double by 2050. This is incompatible with the internationally agreed goal of keeping global warming below 2°C, which requires worldwide emissions to be at least halved from 1990 levels by 2050.

The European Union and its Member States have a strong preference for a global approach to reducing GHG emissions from international shipping led by the International Maritime Organization (IMO). Considerable efforts have been made over recent years, within both the IMO and the United Nations Framework Convention on Climate Change, to reach such an agreement. In 2011 the IMO made progress by adopting the Energy Efficiency Design Index, which sets compulsory energy efficiency standards for new ships, and the Ship Energy Efficiency Management Plan, a management tool for ship owners. However, the international discussions have yet to bring agreement on global market-based measures or other instruments that would cut GHG emissions from the international maritime transport sector as a whole, including existing ships.

EU governments have agreed that legislation to reduce emissions from ships will have a beneficial impact on human health. The European Commission has said that this could cost the shipping industry up to €11 billion but is outweighed by the public health savings of approximately €34 billion.

Q4 2013 Updates –

• Draft rules to introduce monitoring, reporting and verification of carbon dioxide from ships starting in 2018 were discussed by EU environment ministers at a meeting in Brussels during the quarter. The European Commission proposed the law in June to encourage global curbs on maritime pollution tied to climate change. These planned rules have received some criticism from member states such as Italy and Ireland, one of their concerns is the planned rules to monitor greenhouse gases from ships must be in line with international law to avoid conflicts with other nations. The draft law on ships does not impose any pollution limits and aims to encourage the maritime industry to cut discharges by increasing transparency.

• The proposed EU regulations present challenges for the industry, the World Shipping Council (WSC) said in a letter to the European Commission. The WSC represents the liner shipping sector and said that regulations on air emissions would be better handled by the International Maritime Organisation (IMO) and also argued that both EU and IMO discussions fail to assess the effects of the regulations on fuel cost and emission reduction.

• The International Chamber of Shipping (ICS) made a written submission to the IMO during the quarter that suggested a possible way forward in the discussions about additional global regulations to further reduce vessels' CO2 emissions. ICS said that it wished to ensure that the global IMO framework for addressing the reduction of the CO2 emissions is kept in place in the face of proposals by the European Commission for unilateral regional regulations that will apply to international shipping trading to the EU. ICS suggested that IMO member states should initially focus on developing regulations for the mandatory reporting of fuel consumption and CO2 emissions, deferring further discussions on how the information collected might subsequently be used to develop additional efficiency measures.

• Sulphur Emissions Control Areas (SECA) – which include the North Sea, Baltic Sea and an area within 24 miles of the California Coast – will see fuel sulphur content cap tightened to 0.1% from the current 1.0%, effective from 1 Jan 2015. Reduction to 0.5% will be applied globally from 2020 from current 3.5% levels. The IMO Secretary General has however suggested that global implementation could occur as soon as 2015, depending on fuel availability. In connection with this initiative, The California Air Resources Board issued a marine notice during the quarter stating they are adopting early (1 Jan 2014) the SECA requirement for maximum sulphur content of 0.1%.

• According to the American Bureau of Shipping, a Decree has been passed in France stating that from 1 Oct 2013 operators of ships transporting passengers or cargo to French ports will be required to report the quantity of CO2 emitted during transportation. There are some exceptions including ships making refuelling stops or ships that are not transporting goods or passengers to a French location.

• China has extended its shipbuilding subsidy programme, launched in 2010 to push the industry to replace old ships registered in the country with new environmentally friendly vessels. Ship owners will get half the subsidy when they finish scrapping an old ship and receive the remainder of the subsidy if a new ship is built. Localised pollution from ships is becoming a major contributor towards Hong Kong's pollution levels and smog problem. The Government is set to introduce legislation on shipping emissions from 2014. Maritime pollution in Hong Kong is blamed for the most sulfer dioxide-related deaths within the region.

Companies impacted -

• Container shipping line, APL Ltd plans to reduce its CO2 emissions and other greenhouse gases associated with cargo transportation and handling to 30% below its 2009 levels. The Vice President of APL stated that the shipping industry can benefit from the lower fuel costs associated with environmentally friendly operations while also reducing emissions.

• Two maritime engine manufacturers, Man Diesel & Turbo and Wartsila have embarked on a research project to look at developments in engine design with an intention to bring the market towards a shift to efficiency, sustainability and safety. The overall aim of the project is to encourage increased engine efficiency and thus reduce fuel consumption, CO2 emissions, gaseous and particulate emissions and to increase engine reliability. The goal of the project is to cut fuel consumption by 10%, NOx (mono-nitrogen oxides produced during combustion) emissions by 70% and other emissions by 50% by 2020.

• FIL's Consumer Analyst continues to monitor regulation in the sector and engages with these companies on the issues. He recently engaged with both Carnival Plc and Royal Caribbean Cruises in relation to their commitments to adjust/redesign their ships with specific filters with an aim to reduce their carbon emissions. Our analyst believes that both companies are moving in the right direction to curb emissions and comply with more stringent regulations that are due to be applied in 2015 and 2020.

Subject - Renewable Energy

Background / Investment Case -

The renewable energy market is an attractive investment opportunity, which is estimated to require significant capital investment over the medium to long term. Technological advances, oil price spikes, geo-political instability and climate change have all contributed to the need to find clean, green, renewable energy sources. FIL's utilities analyst continues to monitor the introduction and impact of new legislation and regulations in relation to renewable energy.

Q4 2013 Updates –

• During the quarter, the UK boosted its offshore wind subsidies; the government guaranteed to pay offshore wind developers the difference between wholesale power prices and a fixed strike price of £140 per megawatt-hour for the 2018/2019 fiscal year, £5 more than its provisional subsidy figures in June. Additional investment from the British Government of approximately £40bn in renewables by 2020 is expected to generate enough clean power for 10 million homes, and reduce carbon emissions by over 20 million tonnes.

• The UK government's advisors on climate change have urged the government to stand by their commitment to reduce carbon dioxide emissions, despite deepening coalition rifts over the issue. The study by the Committee on Climate Change said that there was no reason to revise the UK's carbon budgets which require halving of carbon emissions in the 2020s, compared with 1990 levels. The study shows that no business would fail to invest in the UK because of carbon reduction policies and that sticking to carbon budgets would save money in the long term.

• France has begun reviewing subsidies for green energy developments as the country is preparing a law to shift energy generation from nuclear to renewables. Although, the development of wind and solar installations has slowed this year, the government has stated that it remains committed to getting 23% of energy used in 2020 from renewables.

• It has been reported this quarter that Germany is off pace for its target of 10GW of offshore wind power generation by 2020. Taking into account its current renewable energy projects, the country is on course to take its offshore capacity to nearly 2.7GW, which will still make it one of Europe's leading players in the sector. Consensus believes capacity by the end of 2020 will be more like 6-8GW.

• This quarter the European Bank for Reconstruction and Development (EBRD) announced that it will focus on renewable energy investments over the next 5 years and cut funding for coal projects as part of its reviewed energy strategy for 2014-2018. Since 2006 the EBRD has invested €6.3bn in power and energy utilities, of which €2bn has been in renewables; predominantly hydroelectric and wind. As such the portfolios will likely widen to consider solar photovoltaic, geothermal, concentrated solar thermal electricity generation where it is affordable, biomass and biogas projects.

• During the quarter, Australia's Climate Change Authority reviewed the 5% reduction of emissions target set up by the Governments Department of the Environment in 2009, as 'socially and environmentally irresponsible' and have now increased this figure to 40% as a result of the publication of a new book on climate change. Written by leading scientists and economists, the book predicts by 2100, there will be temperature rises of 3-5℃ in coastal areas and 4-6℃ inland, a reduction in rainfall of 50% and a sea level rise by 1.1m, unless radical action is taken.

Companies impacted -

• During the quarter, EDF S.A. launched its first Green Bond. Denominated in Euros, maturing in 7.5 years with annual coupon of 2.25%, the total €1.4bn raised was twice oversubscribed. Funds raised will be exclusively dedicated to financing future renewable energy projects led by EDF Energies Nouvelles, a wholly-owned subsidiary of EDF since 2011.

• Bank of America has raised $500m in the first Green Bond sale by a US bank. With a coupon of 1.35%, 80bp over US Treasury Bonds of a similar nature, the 3 year bond is reported to be likely rated Baa2 by Moody's. The bank has earmarked funds for 'environmental projects' but no details have yet been disclosed.

• The first UK offshore wind bonds from Greater Gabbard were reportedly 3 times oversubscribed. Valued at £305m, rated A3 by Moody's and maturing in Nov 2032, they will support the new transmission link to connect the 140 turbine wind farm off the Suffolk coast with the UK mainland.

• Drax Group PLC is forecast to become one of Europe's largest renewable energy producers. At the newly opened coal-tobiomass conversion plant (co-developed with Alstom & BOC Group Limited), the £700m planned conversion project will cut carbon emissions by 80% vs. coal and supply approximately 1 million homes.

• Prysmian Group, a leader in the renewable energy sector, has announced a €100 million loan facility with the European Investment Bank to fund its European research and development programmes, including new product developments in the renewable energy sector. FIL's ESG Specialist met with Prysmian this quarter and discussed the company's footprint in renewable energy – the company explained that approximately €500m of its revenue came from renewable energy sales; this is just under 10% of total sales, but accounts for more than 10% of Net Profit as this business line has a higher margin.

• During the quarter FIL's ESG Specialist also attended a European Investment Bank (EIB) roadshow hosted by BoAML discussing Green Bonds. This quarter the EIB have raised a further €250m for its Climate Awareness Bond taking the total issuance up to €900m, this is the first time the EIB has tapped the Nov 2019 1.375% coupon bond.

Q1 2014 Updates –

• During the quarter, China announced a plan to extend its investment in renewable energy by more than doubling its number of wind turbines in the next six years. Already the world's largest producer of wind power, China plans to increase current installed capacity of 75 gigawatts (GW), to 200GW by 2020.

• At the end of the quarter, the World Bank announced it had mobilised over $5.3 billion through 61 green bond transactions in 17 currencies since 2008 and The International Finance Corporation IFC has issued $3.4 billion in green bonds, including two $1 billion issuances during 2013.

• During the quarter at the World Economic Forum in Davos, the World Bank Group President, Jim Yong Kim, called for doubling the global market for green bonds to $20 billion by September 2014, when the United Nations (UN) convenes at a high-profile climate summit, and reaching at least $50 billion by December 2015, when the UN climate negotiations in Paris take place.

• To provide greater clarity and transparency for issuers and investors 13 commercial and investment banks launched a set of voluntary Green Bond Principles that describe a process for designating, disclosing, managing and reporting on green bonds. The principles were developed by the banks in consultation with IFC, the World Bank, and other green bond issuers and investors.

• HSBC reported in the quarter that the green bond market has grown by a compound annual rate of 55% since it began in 2007 with issuances last year jumping to $11.4 billion, more than triple the 2012 level.

• This quarter the European Commission's Directorate-General of Climate Action has commissioned a project to look at what Europe's role should be in "shifting private finance towards climate-friendly Investments" – both within the EU and internationally. The project is reported to involve a close working relationship with the European Investment Bank and the International Finance Corporation (part of the World Bank), as well as a number of European Commission's Directorates.

• In March, for the first time in 17 years the French Government enforced rules allowing only motorists driving cars with odd-numbered registration plates to enter the French capital and use the roads in the surrounding departments. This occurred after Paris' air-quality unit reported that on March 14th the level of PM10 particles per cubic meter had reached 180 micrograms, more than twice the safe limit of 80 micrograms; likely caused from a mix of unseasonably hot days and cold nights, with no rain or wind to disperse the particles.

Companies impacted -

• During the quarter, Siemens announced plans to double their original investment of £80m in wind turbine production in the UK to £160m. Combined with the investment from the UK's Associated British Ports, this takes the total invested in UK wind turbine factories to £310m. This investment will largely focus on the Green Port Hull and rotor blade manufacturing facility located at Paull in East Yorkshire; together they are thought to create 1,000 jobs for the region.

• The European Investment Bank (EIB) continued to issue Climate Awareness Bond (CAB) in the quarter, including:

- A further €350m in its EURO CAB, which takes the total value of the bond due to mature on 15 November 2019 to €1.5bn
- Its first ever GBP denominated CAB, at GBP 500m; it is also EIB's largest CAB transaction this year. It was priced at G+30bp in line with the original guidance and carries an annual coupon of 2.25% with a final maturity date of 7 March 2020.
- Its first CAB issue in Japanese Yen. An issuance of JPY 5bn with 3% coupon during the first year and then floating rate linked to the JPY/AUD FX has a final maturity date of 25 March 2039 and can be called by the issuer on an annual basis from 25 March 2024 onwards.

• US firm Hannon Armstrong Sustainable Infrastructure Capital Inc (HASI) announced the sale of $100m of new asset-backed Sustainable Yeild Bonds, offering a coupon of 2.79% and maturing in December 2019.

• Svenska Cellulosa Aktiebolaget (SCA) is the first Swedish listed company to raise SEK 1.5 bn through a green bond issue. The bond proceeds will be used for investments in projects with a positive environmental impact, have a five-year tenor and are issued under the company's EMTN (Euro Medium Term Note) program. The bond has two tranches: One tranche of SEK 1 bn floating rate notes which are priced at three-month STIBOR +0.68% annually and one tranche of SEK 500m fixed rate notes with an annual coupon of 2.5%.

• FIL's ESG Specialist and global analysts monitor this issue consistently across a wide range of industries.

<u>Subject - Shale Gas</u>

Background / Investment Case -

Shale gas is natural gas that is found trapped within shale formations. Shale gas in the United States is rapidly increasing as a source of natural gas. Led by new applications of hydraulic fracturing technology and horizontal drilling, development of new sources of shale gas has offset declines in production from conventional gas reservoirs, and has led to major increases in reserves of US natural gas.

In the United States, surging oil and natural gas production brought on by hydraulic fracturing is lifting the economy by lowering energy costs for consumers and manufacturers, and the development of shale resources supported over 1 million jobs in 2012. Affordable domestic natural gas is considered essential to rejuvenating the chemical, manufacturing, and steel industries. The economic success of shale gas in the United States since 2000 has led to rapid development of shale gas in Canada, and, more recently, has spurred interest in shale gas possibilities in Europe, Asia, and Australia.

Shale gas extraction raises environmental concerns in relation to:

• Carbon dioxide (CO_2) and methane (CH_4) emissions, particularly the potential for increased fugitive CH_4 emissions during drilling compared with drilling for conventional gas.

• The volumes of water and the chemicals used in fracking and their subsequent disposal.

• The possible risk of contaminating groundwater.

• Competing land-use requirements in densely populated areas.

• The physical effects of fracking in the form of increased seismic activity.

Q1 2014 Regulatory Update –

• During the quarter, Achim Steiner, the United Nations' top environmental official warned that 'Shale gas could turn out to be "a liability" to global efforts limit climate change', whilst speaking on the side-lines of a high-level ocean summit hosted by the Economist and Natural Geographic. He further stated there was a far greater risk that the switch from coal to natural gas would only delay the much more critical energy transition from fossil to renewable fuels.

• In March EU politicians voted for tougher laws on exposing the environmental impact of oil and conventional gas exploration, while excluding shale gas. Under the planned law, assessments of a range of infrastructure and oil & gas projects will include their impact on biodiversity and climate change, plus measures to ensure authorities granting approval have no conflict of interest. Member states are expected to give their endorsement over the coming weeks, after which the law will become final.

• Last year China set a target to produce 6.5bn cubic meters of shale gas production per year through to 2015. This quarter it was released that the two largest oil and gas companies, China National Petroleum Corp. (CNPC) and China Petrochemical Corp., expect to produce less than half of that by 2015, about 1.5bn cubic meters each. Following this announcement, Damien Ma, a fellow at the Chicago-based Paulson Institute, suggested that China would likely need to invest about $350bn if it wanted to meet its 2020 target of 60bn to 100bn cubic meters annually.

• During the quarter, a report by the BBC painted a stark view of the global shale gas situation. Whilst US energy costs have fallen dramatically on the back of shale oil and gas over the last 4 years, natural gas prices in Europe are now approximately 3 times higher and prices in Japan are roughly 5 times higher than the US. In the US more than 100 test wells were dug before certifying shale gas as viable; in Europe, 30-40 test wells were planned, but to date reportedly only 1 is producing enough gas to be economically viable.

• Vince Cable, the business secretary, added to the UK shale press engine this quarter by stating that 'shale gas won't be a reality in the UK for at least a decade', but 'renewables offers more immediate opportunities'.

• In March the US government started efforts to measure Methane emissions from the US shale industry with a view to possibly introducing new regulation by 2016 to curb greenhouse gas emissions. Conscious of the US broader goal of reducing US emissions by 17% by 2020 (from 2005 levels), the announcement comes as the US shale energy boom sees Methane currently accounting for 9% of all US greenhouse gas emissions.

• During the quarter Mexico announced that it expects to put some deep water oilfields (including shale fields) out to tender, also welcoming private investment. The fields include parts of the Perdido Fold Belt, some offshore heavy oilfields, and parts of the Chicontepec formation. Until now Pemex, the state oil company, had a 76 year monopoly on the industry, it has now put a wishlist of fields it wants to keep to the government who have until September to rule; the first fields are expected to be lost by June 2015.

• New York's environmental commissioner, Joe Martens, said he won't issue regulations to allow fracking for natural gas until at least April 2015, extending the five year wait for fracking rules another fiscal year and signalling that Governor Andrew Cuomo probably won't decide on the issue until after he faces re-election. Mr Cuomo has been waiting for the state Health Departments review of the Department of Environmental Conservations assessment of potential health risks associated with fracking since Sept 2012, but it is not yet finished.

Companies impacted -

• At the end of the quarter Shale Gas Europe, which brings together companies such as Chevron, Total and Cuadrilla Resources, publically welcomed new laws on tougher rules for projects (requiring environmental impact assessments) proposed in March (see bullet point 2 above).

• In January Total announced that it had acquired a 40% interest in two shale gas explorations (Petroleum Exploration & Development Licences 139 and 140), which cover an area of 240km2 in the East Midlands region of the UK.

• Companies such as Royal Dutch Shell Plc, Rio Tinto and Antofagasta are turning to Asian suppliers in the race to slash costs from their US shale businesses. In January Royal Dutch Shell Plc said one if its biggest challenges this year is to turn around their $24bn North American and Canadian shale assets; having yet to make much money from them, indeed last year the Upstream Americas unit made a loss. Rio Tinto said it made close to $2bn worth of equipment purchases from China last year, with $1bn also spent in India.

• Before violent protests in Kiev overthrew pro-Moscow President Viktor Yanukovych and Russian troops occupied parts of Crimea, a group including Exxon Mobil Corp and Royal Dutch Shell Plc planned to spend $735m drilling two wells about 50 miles (80 kilometers) from the region's southwest coast. At the end of the quarter it remains unclear as to whether the government in Kiev will have the power to award oil and gas licenses in the Black Sea waters around the disputed region.

• During the quarter BP Plc CEO Lamar McKay announced the creation of a new business to manage its US onshore oil and gas assets so that it can 'build a stronger, more competitive and sustainable business that we expect will be a key component of BP's portfolio for years to come'. The new business will be led by a separate management team at a new location in Houston. It will have separate governance, processes and systems in effort to compete more effectively with the smaller independents that dominate America's shale industry. Separate financials will be published from 2015.

• FIL's relevant Analysts and Portfolio Managers actively monitor the evolution of the shale gas industry and the potential effects it will have on the environment and on society.

SOCIAL

<u>Subject - Data Protection</u>

Background / Investment Case –

Reports of data breaches affecting some of today's largest companies continue to capture prominent news headlines globally. The damage experienced by a company after a data breach has lasting negative effects on brand equity and reputation. All organisations are susceptible to breaches of data, yet many are not prepared or equipped to handle the aftermath. Companies spend a great amount of time putting crisis plans together but are not always including data breaches as part of these plans. Due to this, companies that have access to a significant amount of highly sensitive information must ensure that they have best practice data protection policies and procedures in place. These policies should include disclosure of what type of sensitive information is collected, when and why it is collected and how it is used. Each company should provide guidelines and training for employees on how to handle and protect customer data and disclose monitoring mechanisms and remediation efforts to address any privacy breaches. The correlation between reputation and the bottom line is closely aligned. Anything that can tarnish a brand will ultimately affect a company's bottom line as damaged reputation can directly result in a reduced customer base, costly litigation and reducedrevenue.

In January 2012 the European Commission revealed its first draft of the European Data Protection Regulation, set to replace the previous Data Protection Directive which was created to regulate personal data as part of the EU privacy and human rights law. The aim of the new European Data Protection Regulation is to harmonise the current data protection laws in place across the EU member states. The legislative process is likely to take up to 2 years to complete with any proposed regulation then taking a further two years to come into effect, so it is unlikely it will come into force before 2015.

Q4 2013 Updates –

• During the quarter, a timeline for the new Data Protection Directive was released. The EU has stated that between November 2013–February 2014 negotiations will be held between the European Commission, Council of Ministers and European MPs. In March 2014 there will then be a plenary vote, with enforcement being guided to Spring 2016. Companies that fail to comply with the new law once in force could be subject to a fine of up to 5% of their annual turnover.

• During the quarter, a review group consisting of a panel of 'outside experts' set up by the White House to review its intelligence and communication technology, has concluded that the bulk of collected domestic phone records is lawful and should continue, but changes should be made to the structure, transparency and internal security that govern these records.

• The Information Commissioner's Office (ICO), the U.K.'s data protection watchdog, said that it will not investigate every complaint it receives about data protection practices by organisations. The ICO said it intends to pass some complaints it receives onto the companies themselves to deal with, and has set out a proposed new process for determining when to address cases and issues more formally itself.

• In addition, during the quarter, the ICO warned application software developers that they should consider deploying "just in time notifications" to inform users about the imminent processing of personal data in mobile applications. The watchdog said that the pop-up disclosures were one way companies could explain to users how they plan to use their personal data and could help them meet the legal standard for obtaining consent to such activity under the Data Protection Act.

Companies impacted -

• During the quarter, Google Inc was found to have violated Dutch data protection law by failing to give consumers adequate notice, obtain full consent or offer explicit options to reject the processing of their data, before combining personal details from various Google services to create detailed data profiles. Punishment for the breach has not yet been determined by the Dutch Government. Google is also under investigation from six other countries: France, Germany, UK, Italy Netherlands and Spain for suspected breaches of their own national privacy laws.

• During the quarter, LinkedIn Corp. was accused by four users of breaking into their email accounts and pitching the LinkedIn service to their contacts. In December LinkedIn urged the Californian judge to dismiss the proposed law suit against them, stating that users consent to this practice when they sign up to the professional networking site and that any 'reasonably prudent Internet user' would realise this after clicking through the various permissions upon signup. At writing, a ruling has not yet been made.

• Thirteen members of the hacker group "Anonymous" have pled guilty in a California court this quarter to their involvement in the 2010 cyberattack of PayPal Inc.'s website. The majority of the group pleaded guilty to one count of conspiracy and one count of intentional damage to a protected computer. Currently released on bail, they will be sentenced in late 2014.

• During the quarter, Adobe Systems Inc, suffered a security breach where at least 38 million users have been affected. The company stated at the time that the attackers used stolen user names and encrypted passwords from an undisclosed number of users, along with encrypted credit or debit card numbers and expiration dates for 2.9 million customers. Adobe is still investigating the incident and there are fears that the impact could be much more widespread than originally thought.

• FIL's ESG Specialist and global analysts monitor this issue consistently across a wide range of industries and discuss the processes and policies relevant companies do or do not have in place to deal with any data breaches. We see this topic as having a huge and potentially damaging reputational impact on the company if not dealt with in the correct manner.

Q1 2014 Update –

• During the quarter, the European Parliament voted by an overwhelming majority (621 in favour, 10 against, 22 abstentions) to adopt the less business-friendly version of the EU Data Protection Regulation.

Two key amendments in the draft regulation require businesses to:

- -Seek explicit consent from individuals in all cases, regardless of context, to process individuals data.
- -Maintain detailed records documenting compliance measures, rather than adopting a risk-based approach to compliance.

The consequences of the above are likely to be that:

- It will become even more difficult for businesses to be confident of achieved compliance
- Both data controllers and data processors may have to appoint internal "data protection officers" to oversee and monitor compliance.
- Whilst the European Commission projects overall benefits, the UK Ministry of Justice had suggested a net cost to UK business of £80-320m per year. The text is still under discussion; three-way negotiations involving the European Commission, the European Parliament and the Council of Ministers are likely to start August 2014. If wording is agreed, the new Regulation could come into effect by late 2016, but this is highly unlikely.

• The EU's Justice Commissioner, Viviane Reding announced in the quarter that the EU-US "safe harbour" agreement would be suspended if the US fails to take "legislative action before the summer". Safe harbour had been set up to facilitate personal data transfers between organisations in the EU and US to circumvent the EU data protection laws preventing companies from sending personal data outside of the European Economic Area (EEA) unless adequate protections exist –previously not considered the case for the US.

• During the quarter, the UK government has launched a new campaign called Cyber Streetwise, aimed at the general public to change the way people protect themselves while shopping or banking online in order to help them avoid falling victim to cyber criminals.

• During the quarter, the President of the United States delivered a speech at the Department of Justice to announce the outcomes of the White House established review group, which had been set up to review the NSA's intelligence and communication technology capabilities. He concluded that 'the NSA consistently follows those protocols designed to protect the privacy of ordinary people and are not abusing authorities. When mistakes have been made, they have corrected those mistakes'.

Companies impacted -

• During the quarter, Target Corp announced that they had incurred $61m of expenses relating to the data breach in the final quarter of 2013 (with a $44m insurance payment, the net impact was however, lowered to $17m), but that this had contributed to profits falling approximately 46%. No estimates were provided on future expenses related to the cyber-attack, though it said they "may have a material adverse effect" on results of operations through the end of the current year and beyond.

• FIL's ESG Specialist and global analysts monitor this issue consistently across a wide range of industries and discuss the processes and policies relevant companies do or do not have in place to deal with any data breaches. We see this topic as having a huge and potentially damaging reputational impact on the company if not dealt with in the correct manner.

<u>Subject - Supply Chain Management</u>

Background / Investment Case –

Organisations face a number of reputational, operational and financial risks resulting from insufficient management of ESG practices and their impacts in the supply chain. The global reach and operational complexity of supply chains has resulted in new risks emerging, and the need for innovative solutions to address these risks. Supply chain risks exist throughout the entire life-cycle of products and services, from design, raw material input, production/manufacturing, and transportation to retail use and through end-use and disposal. The danger to investors, in addition to practical issues in global supply chains, is that activist campaigns are spanning a wider range of products including high technology electronic goods. These campaigns can potentially cause reputational and brand damage, which may impact the company's valuation. FIL believes that effective supply chain management can potentially be a valuable way of securing a competitive advantage and improving organisational performance.

Q4 2013 Updates –

• Since the eight-story commercial building, Rana Plaza, collapsed in Savar, Bangladesh in April 2013, NGO's have increased their calls for greater supply chain transparency to assist in improving standards within the industry. It was reported during quarter that 94% of victims have not received any legal benefits from their employers; including sick pay or compensation; 92% of survivors have not gone back to work and of these, 63% had cited this as a result of physical injury such as amputations, paralysis or severe body pains.

• During the quarter, retailers including John Lewis, Dixons Retail and Argos, gathered at a roundtable discussion, co-hosted by Retail Week and DP World London Gateway, to share opinions on the challenges of adapting the supply chain to the multichannel retail landscape. There was specific concentration on implementing an end-to-end overhaul across the entire supply chain, from adapting to the increasing complexity in relationships with suppliers, to meeting availability targets and managing customer demand for quicker delivery, all which would mean massive technological, organisation and logistical changes.

• Bangladesh's wage board has proposed raising the minimum salary for garment industry workers by 77% to 5,300 takas ($68/£42) per month. The raise is however, less than the 8,000 takas per month the unions had demanded. According to some experts the sector is worth $22bn to Bangladesh and accounts for nearly 80% of the country's exports.

Companies impacted –

• Loblaw Companies Ltd., the owner of a number of brands that had garments produced in the Rana Plaza, joined several retailers in signing a pact to improve fire and building safety in Bangladesh during the quarter. The company also said it would provide short-term financial support to all workers or dependents of New Wave Style (owned by Loblaw Companies Ltd) in the Rana Plaza factory complex, and plans to join with British retailer Primark to provide financial assistance to workers of all retailers in the factory plaza.

• During the quarter, Kmart Holding Corp published on its website a list of its supplier factories in Bangladesh. It further plans to publish the location of its Indian and Chinese and other factories in 2014. The company also announced its participation in Impact Limited's "Benefits for Business and Workers" (BBW) programme. BBW provides training and consultancy services focused on improving factories' productivity, efficiency, quality and human resources management, delivering better jobs for workers.

• Target Corp also announced during the quarter that it will publish a list of its Bangladesh supplier factories within the next year. It stated that it sources only approximately 5% of its store ranges from 45 suppliers in Bangladesh, but recognises the need for improvement in working conditions and safety standards after recent tragedies. Details of its factories in other countries (including India and China) will follow. Target has also joined the BBW programme.

• During the quarter, Pacific Brands Ltd announced that it had signed up to the Bangladesh Fire and Safety Accord, the 5 year agreement that will see independent safety inspections with public reports on all Bangladeshi suppliers used by the signatory companies. More than 100 companies have now signed up. (Kmart Holding Corp and Target Corp are also signatories).

• International retailers such as Benetton Group SpA and Hennies & Mauritz AB, have also signed up to the Bangladesh Fire and Safety Accord and agreed to routine inspections of worldwide factories as well as providing funds to upgrade facilities. Each member company to the Accord will contribute $500,000 annually under the 5 year agreement.

• FIL's ESG Specialist continues to discuss these issues with the company that she engages with and also with our retail and consumer analysts.

Q1 2014 Updates –

• Ongoing labour unrest in Cambodia (since the country's general elections held in July 2013) culminated in a mass protest in January as workers were on strike over the government's refusal to raise the minimum wage to $160 a month. A government committee charged with assessing damage from the garment worker protests has put the value of the destruction to general space at over $250k; it also states that the Garment Manufacturers Association in Cambodia (GMAC) calculates the value of the damage to 95 of its member factories at $72m, including $42m in lost production and $17m in property damage.

• Germany's main airports (including Frankfurt and Munich) have suffered strikes this quarter as Trade Unions want pay rises of 3.5% plus an extra €100 per month for approximately 2.1m federal and municipal public sector workers; reportedly this will amount to a total wage increase of 6.7%. The government states that it is willing to negotiate, but that the current demands are too high. The talks are ongoing.

• This quarter the Panama Canal Authority (ACP) has approved a deal to end a dispute over $1.6bn of cost overruns that had delayed work to widen the waterway. The Spanish-led construction consortium, United for the Canal, and the ACP have agreed to each invest an extra $100m in the project, now 72% complete, to cover construction costs for the next few months while the sides attempt to strike a permanent deal. The project will double the capacity of the 50-mile (80-km) canal, which carries between 5-6% of world commerce and is due to be completed in 2015.

• The results of the World Trade Organization (WTO) ministerial meeting held in Bali in December were published this quarter. Three accords were formed, known collectively as the 'Bali Package', which together mark the first global trade deal put forth by the WTO since its formation in 1995. One of the three accords, The trade facilitation deal, focuses on simplifying customs procedures such as through standardised documentation requirements for the release and clearance of goods and reducing transaction costs. The WTO estimates that this accord alone could create up to 21m jobs and boost exports by up to 10% in developing countries and by 4.5% in developed nations.

• At the end of the quarter more than a dozen of the world's largest car makers have agreed to a Pact on Human Rights which stipulates minimum standards human rights, environmental and business ethics standards for their global supply chains, according to the Automotive Industry Action Group (AIAG) in Michigan and CSR Europe in Brussels. The agreement calls on the manufacturers to pursue comprehensive strategies to reduce the lifecycle environmental footprint of all supply chain products and materials.

Companies impacted –

• BMW, Chrysler, Daimler, Fiat, Ford, General Motors, Honda, Jaguar/Land Rover, PSA Peugeot Citroen, Scania, Toyota, Volkswagen and Volvo have in the quarter all signed up to the Pact on Human Rights, Sustainability and Ethical Standards (as detailed above).

• Platinum producers Anglo American Platinum, Impala Platinum and Lonmin announced at the end of the quarter that the current labour strike, now in its ninth week, at their South African mines was causing irreparable damage to the sector and local economy. Strikes started at the beginning of the year after wage talks broke down subsequent to the demand for wages to double from the Association of Mineworkers and Construction Union (AMCU). The companies had stated that they were open to discussions within 'a reasonable settlement zone' and Lonmin announced that "The companies continue to explore ways to resolve the strike with all relevant stakeholders".

• PepsiCo has added 25 new longer trailers to its Walkers and Quakers fleet and Waitrose has added 6 new eco-friendly lorries to its fleet, both efforts to improve supply chain management, environmental credentials and efficiency.

• FIL's ESG Specialist continues to discuss these issues with the company that she engages with and also with our retail and consumer analysts.

GOVERNANCE

Subject - Board Diversity

Background / Investment Case -

Recently there has been increased interest in board diversity and in particular, representation of women on executive boards. There has been growing recognition of the importance of including more women in strategic decision-making roles and the benefits that would be gained by businesses in doing so. In the UK, the Lord Davies report (released in 2011) outlined a roadmap guiding businesses to achieve 25% female representation on boards by 2015. A more recent report released in March 2012 outlined how progress had been made due to an increasing number of women on FTSE company boards since 2011.

Q4 2013 Updates –

• This quarters Boards Forum "BoardWatch" (which tracks appointments of women directors to FTSE 100 and FTSE 250 companies) indicated that in the past 6 months the pace of female appointments overall is slowly rising, suggesting that the UK is making some progress to reaching the target of 25% board positions held by women in 2015 – the target set by Lord Davies in 2011. Currently 19% of directors of FTSE 100 companies are female, up from 17% in May 2013, and 24% of board appointments have been to women, up from 12% in May 2013. In order to reach the 25% total target, 66 more Board seats need to be taken by women. Appointment to UK boards in the FTSE 250 is at approximately 34%, subsequently only 19% of Boards (47 companies in total) remain all male.

• The "Balancing The Pyramid" project, launched by the UK's 30% Club together with 16 companies to accelerate women's rise through the corporate ranks has found that a man starting his career with a large FTSE 100 UK company is still 4.5 times more likely to make it to the Executive Committee than his female counterpart. The full analysis has not been finalised yet.

• The proposed EU quota advocating for 40% of women to occupy non-executive board seats on public companies in Europe moves a step closer after two key European Parliament committees –the Women's Rights and Gender Equality Committee and the Legal Affairs Committee – voted in favour of the proposal. If enforced, state-owned firms will need to meet the quota by 2018, and all EU publicly-listed companies by 2020. Companies that fail to reach the target by 2020 will have to explain why to national authorities and could face penalties such as being excluded from public calls for tender. The UK Government still opposes the move.

• The gap between male and female pay has not moved much in years reported the Wall Street Journal in the US during the quarter. Women earned 76.5cents for every $1 dollar men did last year, leaving the gap a little smaller over the last decade. However, analysts frequently caution the earnings comparison as women often forgo salary in favour of other benefits including healthcare, fulfilling work and flexible schedules.

• During the quarter Bloomberg Businessweek reported that "Bigger Companies Do Better" on board diversity but cited the reason for this was not because of them having larger boards and so more room to accommodate females, but that they likely face more investor pressure and reputation risk if they do not appoint females.

Companies impacted -

• General Motors Co. (GM) appointed its first female Chief Executive at the end of this quarter who will take up position in January 2014. Mary Barra has been at GM for 33 years, and is the first woman to head a major car company.

• In the quarter, Twitter Inc also announced the addition of their first female to its Board of Directors, a month after the company went public. Marjorie Scardino was the first female CEO appointment to and member of the Board at FTSE100 Company when she joined Pearson in 1997.

• During the quarter, Burberry Group CEO Angela Ahrendts announced she was leaving the British fashion house to take on a new role at Apple Inc. as Senior V.P. of Retail and Online stores. She is Apples' first senior female executive appointment since 2006 and will move across in mid-2014 after 7 years at Burberry. She will be replaced by Christopher Bailey, current Chief Creative Officer, who joined Burberry in 2001 as Creative Director. He will become the first openly gay Chief Executive of a FTSE100 company and will be appointed to the company's Board.

• Inga Beale was appointed as the first female Chief Executive of Lloyds of London in its 325 year history during the quarter. With 30 years of experience in the sector she will replace Richard Ward who is stepping down in July to take charge of approx.80 competing insurance syndicates providing specialist cover in more than 200 countries.

Q1 2014 Update –

• This quarters Boards Forum "BoardWatch" (which tracks appointments of women directors to FTSE 100 and FTSE 250 companies) indicated that currently 20.8% of directors of FTSE 100 companies are female (up from 19% last quarter) following 28% of board appointments since 1 March 2013 going to women. Of the FTSE 100, 37 companies now have more that 25% female representation, versus 53% of the FTSE 250.

• However, at the end of the quarter the government warned that the UK is in danger of missing the target of 25% female representation at board level set by Lord Davies of Abersoch in 2011. In order to reach this target, 47 more Board seats still need to be taken by women in the next year; at the current appointment pace hitting the target looks unlikely unless there is a boardroom hiring drive.

• It is not only gender diversity that is a big issue in today's markets. A study released during the quarter by Green Park (the UK's largest independent supplier of senior interim management across the private and public sectors) concludes that more than half of FTSE100 companies have no non-white leaders at board level, whether executive or non-executive; and two-thirds have no full-time minority executives at board level. Moreover, just 10 of the posts of Chair, CEO or CFO being held by ethnic minority leaders.

• In response to this study the shadow business secretary Chuka Umunna said the research showed an "undeniable and unacceptable" situation and warned a future Labour Government could, if elected, consider introducing boardroom quotas for ethnic minorities as well as women.

• A report released by Catalyst, a non-profit research firm focused on expanding opportunities for women in business, revealed that the US had made no progress on increasing the number of females within the boards of the Fortune 500. The eighth year in a row where there has been no significant increase from 17%. Women also held just 14.6% of executive officer positions at these companies, the fourth year with no growth. Importantly, women from ethnic minorities hold just 3.2% of all board seats, with 2/3 of companies having no women from ethnic minorities on their boards at all.

• A secondary analysis of the gender pay gap published by the Department for Culture, Media & Sport in the quarter concluded that the pay gap was 19.7% in 2013, marginally higher than the 19.6% presented for 2012. The gap is different for different pay groups but peaks in the 40-49 age category, closely followed by the 50-59 category, but there is then a significant drop in pay difference (gap closes by >5%) in the 60+ bucket.

• A Swedish government official announced during the quarter that voluntary efforts from Swedish companies to boost gender diversity on their boards are moving too slowly, as such, the country may impose a quota requirement if numbers don't improve this year. Women hold 24% of the board seats at Swedish companies, according to Statistics Sweden and make up just 22% of senior managers at the country's 25 largest firms. These figures are higher than US where women make up less that 17% of board members, but significantly lag behind the likes of countries such as Norway, where women make up nearly 40% of corporate boards.

• Planned German laws stipulating that 100 listed German companies will be required to allocate 30% of seats on their non-executive boards to women came under renewed fire this quarter by critics being labelled as 'tokenism'. The new laws state that they will be phased in from 2016; rather than firms overhauling their supervisory boards, they will gradually work towards meeting the quota through filling vacancies that arise.

• From the 1 January 2014 French Law adopted in January 2011 came into effect which stipulates that any board appointments made must keep the members of each sex at a minimum of 20%; this will increase to 40 per cent for the first appointments after 1 January 2017.

Companies impacted -

• During the quarter, Shire Plc announced that Susan Kilsby, current Chairman of the Audit, Compliance & Risk Committee will succeed Matthew Emmens as the new Chair when he retires after the conclusion of Shire's AGM on 29 April 2014. She also holds non-executive directorships at BBA Aviation plc, Coca-Cola HBC AG and Green Mountain Coffee Roasters Inc.

• Quartix appointed a new chair, Avril Palmer-Baunack, during the quarter. She is currently also chair of both Helphire plc and Molins plc.

• FIL's ESG Specialist continues to put Board Diversity – gender, ethnicity and experience - on the agenda at all company meetings she attends.