REPORT TO: **SUPERANNUATION INVESTMENT SUB-COMMITTEE OF THE POLICY AND RESOURCES COMMITTEE - 23 NOVEMBER 2009**

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

REPORT BY: **DIRECTOR OF FINANCE**

REPORT NO: **553-2009**

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 30 September 2009.

3 FINANCIAL IMPLICATIONS

On 17 November 2008 the Sub-Committee approved a revised Policy on Environmental, Social 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 latest activity has again looked at executive compensation and is shown at Appendix 1.

5 BAILLIE GIFFORD

A summary of recent engagement activity is shown at Appendix 2(a). This shows the wide range of topics covered and the diversity of companies approached. A new policy document summarising their results in following the United Nations Principles of Responsible Investment is shown at Appendix 2(b).

6 FIDELITY

At Appendix 3, Fidelity if process and policy is shown together with examples of issues they have considered in the last quarter.

7 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.

Whilst the fund is still committed to the United Nations Principles of Responsible Investment, it is not currently resourced to formally sign up and introduce the self-assessment procedure.

8 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.

9 CONSULTATION

The Chief Executive and Depute Chief Executive (Support Services) have been consulted in the preparation of this report.

10 BACKGROUND PAPERS

None

MARJORY STEWART
DIRECTOR OF FINANCE **16 NOVEMBER 2009**

Taking an Active Role in Executive Compensation

Compensation Principles

- As much compensation as possible should be variable: certainly more than 50%
- Variable compensation should be linked to the multi-year performance of the business
- Link payments to achievement of specific, quantifiable, business objectives for which audited data are in the public domain
- Senior executives should hold company stock equivalent to a significant multiple of their annual compensation
- Remuneration committees must be demonstrably independent to ensure adequate oversight
- All compensation payments, as well as changes to remuneration structures, must take account of financial performance, and set an appropriate tone for the business
- Automatic compensation increases linked to comparator analysis are inflationary and to be avoided

Our Approach

- We vote proxies actively on our clients' behalf following these policies
- We engage with companies to understand their approach to pay, and to make our concerns clear where appropriate

UK Examples Q2 2009

- We voted against the remuneration reports at two major UK oil companies. This was because both companies disregarded their own compensation guidelines by proposing that bonuses be paid to executives after pre-set performance targets were not reached
- We voted against the remuneration report at a UK engineering company on the grounds that the CEO's remuneration was excessive given unsuccessful redeployment of capital following a restructuring
- We voted against the remuneration report at a UK insurance company because we deemed the proposed performance hurdles to be inadequate

Asahi Breweries

Asahi Breweries has a 50% share of the Japanese beer market and is the ninth biggest global beer brand. The recent acquisition of Cadbury Schweppes in Australia represents a significant change in strategy. We met the Head of General and Legal Affairs who sought our views on the company's corporate governance structure, anti-takeover devices and recent developments in Japanese corporate governance.

In light of the acquisition of Cadbury Schweppes Australia, we discussed how strategic issues are addressed, particularly by the independent directors. The board had an open and constructive discussion around the integration and cultural risks associated with acquiring a foreign company. The external perspective of the independent directors, including their legal and business experience, is considered invaluable. Although this is reassuring, we suggested that the rationale for any future acquisitions and changes to strategy should be better explained to shareholders.

We also took the opportunity to discuss key environmental and social (ESG) issues and the possible impact of cultural differences. We were reassured that the company is proactive in its management of the key ESG issues facing an alcoholic beverage company. The company is currently campaigning against drink driving and is active in promoting responsible drinking at both international and domestic levels. It is therefore well placed to deal with any new demands placed on the industry by the newly elected Japanese government and respond to consumer pressure on the issue.

Whilst the company's disclosure is comprehensive, we encouraged continued development of reports to ensure the data provided to investors was more useful and relevant. We hope to continue this dialogue to monitor the company's development of corporate governance and ESG disclosure.

BG Group

We attended a group conference call with the Vice President for Policy and Corporate Affairs. We have met BG Group several times now and have identified it as setting best practice standards in terms of its attitude towards managing ESG risks and integrating its ESG philosophy into operating standards. Nothing has changed; their framework for working with host governments to identify shared priorities appears sophisticated and is not something other oil and gas exploration and production companies disclose. In addition, the company has a positive approach to more standard health & safety, water management, asset integrity and social impact. This attitude towards sustainability is favourable for the company and ultimately its shareholders in terms of minimising risk and creating opportunities. As projects available to International oil companies are increasingly joint ventures with national oil companies and are technically difficult with greater social, political and environmental risks than might have been the case historically, we believe BG Group is well positioned is maximise its opportunities.

Bunzl

We participated in a joint engagement meeting with four other investment managers to speak to the company about its management of employee relations and labour rights in the United States. Our objective was to better understand the company's position, workplace policies and responses regarding union organising drives, elections and collective bargaining, in light of the proposed legislation known as the Employee Free Choice Act

(EFCA). Although the EFCA is intended to reform certain aspects of US national labor law (e.g., the National Labor Relations Act), there are some indications that the Act could be passed in the coming year. President Barack Obama has voiced strong support for the legislation. This is relevant for Bunzl because approximately 25% of its employees are located in North America.

Currently, 13 of Bunzl's 90 US warehouses are unionised so there is scope for the legislation to impact employee relation programmes in many more of its warehouse facilities. The company acknowledged that there could be additional costs involved should the EFCA come into force. The costs would come from potential collective bargaining activities with unions that may have to be undertaken across all 90 warehouses.

Our meeting was with the Finance Director and the Director for Group Human Resources. The company had discussed the potential legislation and is not worried by it because 'freedom of association' forms part of the Bunzl employment policies and it has experience of working and negotiating with unions. It was interesting however to note that the UK based Director for Group Human Resources believed her US colleagues had more concerns reflecting cultural differences between employment practices in the UK and the USA; UK companies have more experience consulting with unions than US companies.

The company provided reassurance that it has considered the EFCA and its impact on the business and we believe it is well placed to manage any change to unionisation in its business through its established employment and communication programmes.

China National Building Material Co

China National Building Material (CNBM) is the second largest cement company in China through its two key subsidiaries, China United and South Cement. Following an in-house meeting with the President and the Vice President, Head of Cement Business, earlier in the year, we continued the conversation via email.

The company had made various statements about using 'resources efficiently' and 'protecting the environment so that society can have sustainable growth', and we were interested to learn whether these statements fed through to the daily operations.

The company responded fully to our questions confirming they 'aim to use resources efficiently, so that [they] can reduce costs as well as their impact on the environment'. They also stated that health & safety is important; and that being socially and environmentally responsible will have long term benefits in terms of the company's reputation and brand image, as well as minimising the risks associated with breaching relevant regulations or policies. In addition, they confirmed that although customers don't choose their suppliers based on their contribution to environmental protection, 'they do prefer 'clean' producers'. Furthermore, they confirmed the increasing legislation and awareness of companies' environmental and social performance in China.

Our conclusion is that although CNBM has very limited publicly disclosed information about its approach to managing ESG issues, it is very aware of the importance for its long term reputation and is aware that these issues are rising up the national agenda. Senior management appear to understand that 'being responsible' is not just about protecting the environment. They acknowledge that by being resource, energy and cost efficient, the benefits are wider, both for the longer term advantage of the company and for its broader stakeholder groups.

Itau Unibanco.

In November 2008, Itaú and Unibanco banks signed an agreement to merge their financial operations. This was the first time we had had a conference call with the merged entity and were interested to understand how the integration was progressing. From a corporate governance perspective, the company satisfies country requirements and makes considerable efforts to be transparent. There is, however, a majority shareholder. The company confirmed that the three independent non-executive directors who are prominent businessmen view their role as representing minority shareholders and ensuring that all decisions are in the best interests of all shareholders. The integration pilot projects have been completed successfully and the new organisation is on target to complete the branch network migration, as well as product and IT systems integration ahead of schedule.

In addition to this, we discussed their view on sustainability. Briefly, they consider it important for the long term benefit and value of the company. By focusing on relationships with clients, providing the service and product the client needs, and by having clear and transparent communications, they are building sustainable relationships which should endure. In addition, financial literacy is high on their list of priorities. Addressing these issues means that credit risk is lessened, consumer lending is controlled and customer loyalty is built.

We look forward to maintaining our dialogue with this company as it progresses through the integration phase and continues to develop its approach to sustainability.

Japan Tobacco Inc.

Japan Tobacco is an international tobacco company that also has more than 60% of the Japanese market. We have recently been in discussion with the company's General Manager of Media and Investor Relations to understand how it is managing the many social and environmental issues that a tobacco company faces.

The company has detailed procedures to ensure compliance with all marketing and environmental regulations. To promote business growth or profits ahead of regulatory compliance is seen as a risk to the customer's trust in its products. That trust is considered paramount to the ongoing financial success of the business. Such a philosophy should help the company manage its risks and avoid negative publicity as it expands into other international markets.

Japan Tobacco is also proactive on the prevention of youth smoking, however within Japan the company does sponsor a range of children and youth projects. This is part of its social welfare programmes to revitalise communities where the company operates and is not deemed to carry a risk to its reputation. This is in stark contrast to other international tobacco companies which consider any association with youth events inappropriate.

Our engagement provided some useful insights into how cultural differences can influence the type and significance of the social and environmental risks facing a company, particularly in an industry that has particularly sensitive regulatory and societal issues to manage.

Rio Tinto

Rio Tinto is a mining and exploration company. Following several high profile events including the resignation of the Chairman designate in January 2009 and the failed Chinalco deal, we requested a meeting with the company to discuss Board make-up, decision making and performance evaluation. Coincidentally, the meeting took place just after the arrest of the Australian national Rio employee, Stern Hu, by the Chinese on suspicion of stealing trade secrets and taking bribes. Our meeting was with Investor Relations and the Global Practice Leader for Sustainable Development and it did not provide many answers. We informed them that we would be interested to follow up our discussion once the board had had time to review and discuss recent events.

Royal Dutch Shell

We accepted the opportunity to meet the Chairman of Royal Dutch Shell, who has been in the position for three years and recently oversaw the change of CEO.

This change is one factor that is influencing the direction of the company but there are also external factors; increasingly, the projects available to International oil companies are technically difficult joint ventures with national oil companies. The national oil company uses the greater knowledge and expertise of Shell (or other international oil companies) to access resources which otherwise would be too expensive or difficult to drill for.

The main topics of our discussion concerned the board and future additions to it; the recent CEO succession and the changes to strategy and company culture he is implementing; and issues relating to the remuneration report which was voted down at this year's AGM. We suggested that, given the global nature of the company's operations, the board could be more international and include individuals with greater engineering experience. We were informed that the nominations committee is looking to address these issues and that there should be an appointment before the 2010 AGM which will improve the diversification of board members. Remuneration is also on the board's agenda and we will be consulted before any long term scheme amendments are finalised.

Standard Chartered

Following the appointment of the new Chairman, John Peace, we met Standard Chartered's HR Director and an independent non-executive director to discuss the appointment and the associated contractual arrangements. There are a number of significant differences between Peace and his predecessor in terms of experience and the nature of his contract, namely that he is not a banker, the required time commitments - and his remuneration - are significantly greater, and he has a 12 month rolling contract which is unusual for a FTSE non-executive Chairman.

In response to questions about these significant changes, the company representatives stressed a number of points. The selection process was rigorous with internal and external candidates considered and Peace has relevant board experience, if not specifically in banking. In addition, during the previous six months, while acting Chairman, he had impressed the rest of the board. On the final point, they stated that, following the turmoil in financial markets over the past 12 months, the boards of financial institutions have had to devote significantly more time to their board duties and this has been reflected in his contract and remuneration - this job is expected to be Peace's priority commitment.

However, to compensate for the lack of banking experience, the board is looking to appoint a new independent non-executive with banking experience.

The company explained the process it followed before confirming the appointment of the new Chairman. We were pleased to be able to have the discussion and will monitor any announcement of new board members to ensure a new independent non-executive director with relevant banking experience is appointed.

Tesco (UK)

Tesco has firmly established itself as the UK's dominant food retailer and is increasingly moving into 'non food'. The company has also been investing aggressively overseas where it now generates around 25% of sales. While returns in these markets remain below those of the highly profitable UK operations, they are rising steadily as individual markets mature.

We met the Chairman, David Reid, to discuss the AGM shareholder proposal from the trade union Unite, Tesco Personal Finance, and the growth of its Fresh & Easy stores in the US. The company has received shareholder resolutions for three consecutive years on very diverse issues ranging from labour standards in its Bangladesh and meat and poultry supply chains, to chicken welfare. The chairman acknowledged the challenge of engaging with shareholders, who have very specific agendas. The company believes that working with multi-stakeholder forums is more constructive than responding to 'self-publicising shareholder activists who threaten Tesco with a shareholder resolution'; their work in South Africa improving the labour standards of fruit growers is one example. Although we agree that any attempts by the shareholder activists to micromanage the business are counterproductive, we have encouraged the Chairman to improve board engagement on such issues in future. We therefore abstained on the shareholder proposal.

Regarding risk management, the Chairman recognises that, as Tesco Personal Finance (TPF) grows, there is a need to understand the new risks and to improve the company's governance mechanisms in order to reassure regulators such as the FSA. For example, TPF has appointed four non-executive directors with relevant financial and banking experience, set up a separate audit committee, and increased its risk management resources. The Chairman emphasised that TPF will only develop financial products where it has a good understanding of the business.

As the company continues to expand into new markets, reputation management becomes increasingly important. The Tesco brand is important to the company's growth strategy for TPF which is hoping to take market share from the banks whose reputations have been dented following the banking crisis. We will continue to monitor how the board engages with the unions, particularly in the US, where new union laws may be introduced in the near future.

Vodafone Group

UK-based Vodafone is the world's largest mobile phone company by revenues and has a significant presence in Europe, the Middle East, Africa, Asia Pacific and the United States through its subsidiary undertakings and joint ventures. Although the most recent annual results highlighted an underlying revenue decline at its European business for the first time in its history, there is significant growth potential in emerging markets (EM) such as India and South Africa.

We met the Chairman, Sir John Bond, to discuss how the board is responding to the challenges faced by the business and recent changes to board structure. The Chairman is cognisant of the concern within the market about acquisition risk and the board has sought to reassure shareholders that future acquisitions will only be funded by disposals. The board has learned from its mistakes in Turkey and has sought to address them. In January 2009, it appointed a new Turkish Chief Executive (CEO), believing that a local CEO with a good understanding of the Turkish market is vital, particularly given the intention of turning the business around. In India, the business has grown much faster than expected and the board recognises that increased capital expenditure remains a priority at this stage of its development.

The contribution of the non-executive directors (NEDs) to business strategy was also discussed. We questioned the limited telecoms experience of the NEDs. However, the Chairman highlighted their significant geographical and technical experience.. This includes knowledge of India, Africa and consumer billing systems which has proven to be invaluable as the company grows its business in EM. The board is also in the process of appointing a new NED with EM experience and, since over 50% of Vodafone's customers are female, the Chairman believes that the board should be more diverse, therefore a female appointment is expected.

Vodafone's business has significant growth potential in EM. The challenges it faces in markets such as Turkey and India will require effective board and management oversight, therefore corporate governance will play an increasingly important role at the company. The Chairman and the board appear to acknowledge the challenges that lie ahead and the recent executive appointments to the board and in Turkey are indicative of this.

ESG research and engagement. They also confirmed that Baillie Gifford's corporate governance specialists are up to date with current thinking on major governance and more general ESG issues.

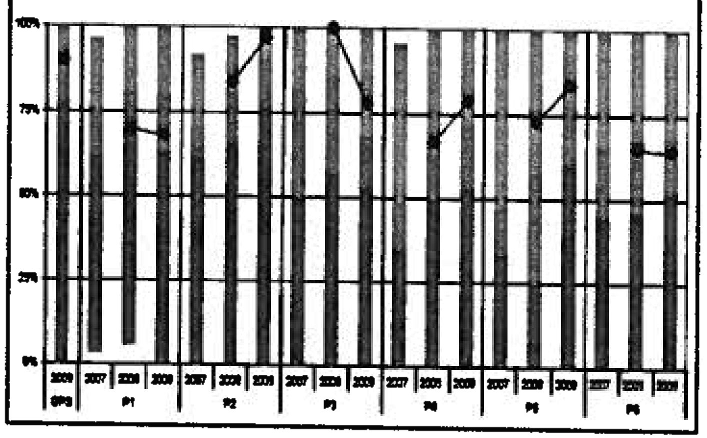
The UNPRI Survey Results

The annual PRI survey results have just been published. The scoring methodology has changed slightly, which explains why some of the scores appear to have decreased. We are pleased to report that we have maintained our top quartile rating.

The 6 principles are:

1. incorporate ESG issues into investment analysis and decision-making processes.
2. be active owners and incorporate ESG issues into our ownership policies and practices.
3. seek appropriate disclosure on ESG issues by the entities in which we invest.
4. promote acceptance and implementation of the Principles within the investment industry.
5. work together to enhance our effectiveness in implementing the Principles.
6. report on our activities and progress towards implementing the Principles.

Figure 1. Baillie Gifford and all PRI signatory scores



APPENDIX 2 (B)

Appendix Corporate Social Responsibility Report - Q3 2009

FIL's policy on Corporate Social Responsibility (CSR)

- Fidelity believes that high standards of corporate social responsibility (CSR) make good business sense and have the potential to protect and enhance investment returns. Consequently, our investment process takes social, environmental and ethical issues into account when, in our view, these have a material impact on either investment risk or return.
- We recognise and support the view that social, environmental and ethical best practice should be encouraged and can often enhance long term financial return.
- We do not screen out companies from our investment universe purely on the grounds of poor social, environmental or ethical performance. Instead, we adopt a positive engagement approach whereby we discuss these issues with the management of the companies in which we invest or consider investing on behalf of our clients. We use the information gathered during these meetings both to inform our investment decisions and also to encourage company management to improve procedures and policies. We strongly believe that this is the most effective way to improve the attitude of business towards CSR.

FIL's process for CSR Analysis & Engagement

- Our approach involves active engagement because we believe that the best way to have a positive impact on a company's CSR profile is to engage in dialogue. Our experience over the years supports this approach.
- In Europe, we are progressing towards a model where CSR issues become embedded in the core evaluation process and thus investment analysts may consider how these issues relate to the investment prospects of the companies they cover. This analysis is part of the process of understanding the sustainability of certain business models and identifying company growth opportunities.
- The investment analysts engage with companies where we perceive that environmental, social and ethical issues could have a material impact on shareholder value.

Appendix Corporate Social Responsibility Report - Q3 2009

General Meetings/Activities on CSR issues

1. The Impact of Regulation

- **The Carbon Market:**

We continue to monitor how the EU limitations on emissions under its Emissions Trading Scheme (ETS), approved in 2008, affect companies in which we invest. The ETS limits the carbon dioxide (CO_2) emissions allowed by certain industries and requires companies seeking to emit above those limits to purchase the requisite amount of credits/ allowances creating a secondary market. Companies that can reduce their direct and indirect CO_2 emissions are potentially at a competitive advantage in markets where there are limits on carbon emissions.

(i) European Climate Exchange

During the quarter, Fidelity met with a representative of the European Climate Exchange (ECX) in order to discuss the ECX view with regard to the development of the carbon market in the context of the EU ETS. The ECX offers future and spot contracts for European carbon emission allowances (EUAs) under the EU ETS. In 2008, 2.8 billion tonnes of CO_2 were traded on the ECX. Currently, the ECX accounts for 90% of the global CO_2 allowances market. The price of carbon emission allowances is driven by constraints set by the EU on industries covered by the ETS. During the first ETS trading period (2005 - 2007), an over allocation of EUAs drove down the price of carbon emission allowances. Currently (under the second ETS trading period which began in 2008 and ends in 2012), more stringent emission caps are resulting in a higher price for carbon emissions. However, macroeconomic and technological factors, which may contribute to the reduction of CO_2 emissions, may counteract this trend. Also, the price of coal, oil and gas are a factor in determining the number of EUAs that emitters require.

(ii) Renewable energy - wind & solar power

In June, the US House of Representatives approved the American Clean Energy and Security Act (the Climate Bill). The Bill aims to: (i) set greenhouse gas emissions reduction targets for industries; (ii) set up a target for the electricity to be generated from renewables; (iii) create a federal "cap & trade scheme" of carbon credits/allowances in the US. The Bill is currently under debate in the US Senate. Recent announcements from the Senate indicate that the greenhouse gas emissions reduction targets for 2020 may be set at 20% below 2005 levels. Additionally, under the proposed Bill, proceeds from the purchase of carbon allowances by industries are intended to be directed to funding clean and renewable technologies. European companies with US operations are likely to be affected by the proposed legislation and the resulting increase in investment in renewable energy projects.

A number of European companies' US operations are already benefiting from the US stimulus package disbursed by the U.S. Department of Treasury, which enables wind farms to receive a cash grant for 30% of capital expenditure required to invest in wind-power generation. During the quarter Fidelity analysts met with wind-farm developer Iberdrola Renovables. The company is one of the most successful applicants for US wind-farm grants. Wind turbine makers like Vestas also continue to invest in the US in anticipation of future growth in renewables based on US government support. Fidelity analysts met with Vestas to discuss the opportunities for the company in the US market.

In September, Fidelity analysts and fund managers attended the European Solar Power Conference in Hamburg and met with over 20 companies involved in the solar power generation industry.

One of the general topics for discussion was potential amendments to government support for solar energy in key markets. For example, Germany has introduced plans for a reduction in solar power feed-in tariff subsidies (these are payments for electricity generated by renewables resource and contributed to the grid). The analysts also discussed challenges to new entrants to the solar power sector with Renewable Energy Corp. and Wacker Chemie.

- **Energy Efficiency:**

Companies that develop products to reduce energy use may be at a long-term advantage in markets where there are constraints on carbon emissions. Over the past quarter, Fidelity's analysts have had regular contact with companies (Siemens, ABB, Schneider, Philips, Legrand) which sell low, medium and high voltage electrical products, lights and controls, which may help to reduce electricity use.

- **Sustainable Transport:**

(i) Electric cars

In December 2008, the European Parliament passed regulations limiting future emissions from automobiles. Therefore, companies that develop products reducing automobile emission, as well as manufacturers developing cars with low emissions are likely to benefit. Fidelity's automobile analyst has identified the development of electric and hybrid cars as pivotal for automakers and there are ongoing discussions with regard to mass market production of electric vehicles with all companies within the sector. For example, BMW has significantly reduced the CO2 emissions of part of its fleet and is planning to introduce hybrid fuel options on selected models. In contrast, Daimler's fleet emissions are one of the highest in the industry. In 2009, Daimler acquired a stake in electric car producer Tesla, which has been commissioned to equip a trial fleet of electric Smart cars. Volkswagen has focused on improving the efficiency of diesel engines. However, it is planning to introduce hybrid technology in selected models next year. Renault-Nissan has partnered with utility companies and governments across Europe to develop charging point networks for electric cars. Commentators have noted that electricity pricing and taxation will be an important factor for the economic success of electric vehicle projects.

(ii) Air Transport

The EU ETS aims to limit aviation emissions with effect from 2012. The European Commission has indicated that it would likely decide the level of ETS emissions cap for airlines by mid-2010. Consequently, Fidelity continues to engage with all airlines and aircraft engine manufacturers to discuss options for fuel use reduction. In the meantime, the International Air Transport Association has called for a global sector approach to cutting aviation CO2 emissions from 2012. The proposal includes a target for the average improvement of fuel efficiency and a plan to use offset carbon credits to achieve a 50% absolute CO2 emissions cut by 2020 (compared to 2005 emission levels).

2. *Brand Equity & Reputational Risks*

- **Supply Chain Issues:**

Negative perceptions of a Company's product supply chain can affect sales and brand equity; retailers are particularly exposed to such risks. First, companies that fail to screen suppliers adequately may unknowingly encourage dangerous and/or repressive working conditions. Second, if retailers lack appropriate controls over their supply chain (for example due to lack of Company presence in the sourcing countries), they may be exposed to product safety risks, which could lead to product recalls, fines or lawsuits. Finally, as consumers become more sensitive to the overall sustainability and ethics of supply chains, companies that do not take account of these issues may face reputational risks.

(i) Supply Chains Ethics

During the Quarter, Fidelity contacted Tesco plc and Wal-Mart to learn more about how these retailers monitor and audit their global supply chains.

Tesco explained to us that over the last 18 months it has undertaken a major review to strengthen its Ethical Trade Strategy. The new strategy will include a greater number of unannounced audits of suppliers. If the auditors discover instances of non-compliance with the standards of the Ethical Trading Initiative (ETI) Base Code for Suppliers, suppliers are given six months to address any concerns. For example, in a footware factory in China, Tesco identified issues with excessive overtime due to ineffective scheduling and provided training to remedy the matter.

Additionally, Tesco described that it recently learned that children were working at a mica mine in India which mines an ingredient used in cosmetic products Tesco sells. Tesco has attempted to address the problem by contacting the mine directly but, as a comparatively small buyer from the mine, it has had no success. Therefore, it has involved other companies which source mica from this mine through the ETI in order to resolve the problem. If Tesco's concerns about the mine's labour practices are not addressed within 12 months, Tesco has committed to cease trading with this mine.

Tesco recognises that its current knowledge/assessment of its supply chain in certain markets can be insufficient to identify all relevant risks. Therefore, Tesco has set up a long-term programme called "Getting to the Truth" which aims to build expert teams who understand supplier risk in individual markets.

Fidelity also engaged with Wal-Mart to learn about its ethical sourcing and supply chain standards. The company detailed the structural changes in supply chain management that it has implemented over the past year. This new structure, officially launching later in 2009, will bring together the global sourcing and the supplier audit oversight functions at Wal-Mart.

In July, Wal-Mart announced plans to develop a worldwide sustainable product index. The index will establish a single source of data for evaluating the sustainability of products and will be publicly available. The company will introduce the initiative in three phases, beginning with a survey of its global suppliers. The survey includes 15 questions that will serve as a tool for suppliers to evaluate their own sustainability efforts. The questions will focus on four areas: energy and climate, material efficiency, natural resources, and workforce and community.

Fidelity continues to monitor efforts by Nucor (the steel company) to increase the transparency of its supply chain. By way of background, we engaged with Nucor last quarter to discuss the context to a shareholder sponsored proposal at the Company's AGM in May. The proposal stemmed in part from a 2006 press article, which contended that Nucor purchased pig iron made with charcoal allegedly produced by coerced labour in the Brazilian Amazon. During the quarter, Nucor confirmed to us that it has not purchased pig iron from Brazil for the last year due to the economic situation and sufficient pig iron inventory stock.

(ii) Product Sustainability

During the quarter, Fidelity met with L'Oreal who presented to investors their strategies to develop the use of sustainable ingredients within their products. Currently, 40% of raw materials used by L'Oreal come from sustainable sources. In instances where supplies are scarce or subject to potential regulation, L'Oreal has tried to reduce its exposure and find sustainable alternatives. For example, the company stated that the expansion of palm oil plantations will likely be regulated because it is implicated in the destruction of rainforests. L'Oreal has been trying to reduce its exposure to the use of palm oil and currently uses it only in products where there are no alternatives. L'Oreal also discussed its efforts to minimise the impact of its products on the environment and on biodiversity. To this end, products are tested on small organism food chains to evaluate their environmental impact. In 2008, the results of a number of the biodiversity tests for products did not meet L'Oreal's standards and the company consequently did not submit patent applications for these products.

Source : Fidelity (30/09/09)