

Reference Information for the 8th meeting of “The Council of Experts
for the Follow-up of Stewardship Code and Corporate Governance
Code”



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Note1: ALFI : Association of the Luxemburg Fund Industry, Please refer to P.9~19 about ALFI Code of Conduct.

Governance of open-ended collective investment scheme

	USA	Europe (EEA)	UK
Structure	Open-end Investment Company ("Mutual Fund")	SICAV (Investment Company with Variable Capital)	OEIC (Open-ended Investment Company)
Oversight Function	Board of Directors (Corporation) or Board of Trustees (Trust)	Board of Directors	Depositary (Independent from Asset Managers)
Independent Outside Board Members	Majority	1 person or more (ALFI Code of Conduct ^注)	—
Examples)	Independent 8 : Investment Manager(s) 2 (Fidelity Magellan Fund)	Independent 6 : Investment Manager(s) 6 (Fidelity Funds)	
Regulator	SEC	CSSF	FCA

Note2: ALFI: Association of the Luxemburg Fund Industry、 Please refer to P.9~19 about ALFI Code of Conduct,)

Note3: Fidelity Magellan Fund Annual Report March 31, 2016 (<https://fundresearch.fidelity.com/mutual-funds/summary/316184100>)

Note4: Fidelity Funds Annual Report and Accounts for the year ended 30 April 2015 Audited (https://www.chartbook.fid-intl.com/statutory/current/ff_ann.pdf)

Reference Information : comparison between OEIC (UK) and SICAV (Europe)

Legal structure and regulation

	OEIC	SICAV
Definition	Open-ended investment company (UK-domiciled).	Société d'Investissement à Capital Variable (Luxembourg-domiciled).
Background	A collective investment vehicle established in company form, domiciled in the UK. Commonly used in the UK, also used in Western Europe and other regions. Introduced in the UK in 1997 as a flexible alternative to unit trusts.	A collective investment vehicle established in company form, domiciled in Luxembourg. Commonly used in Western Europe, also in other regions. Introduced early in the last century.
Legal status/UCITS	An OEIC can be established as an umbrella company, with a number of sub-funds, or as a stand-alone fund. It can issue a range of shares, including hedged shares. It can be established to comply with UCITS or non-UCITS rules.	A SICAV can be established as an umbrella company, with a number of sub-funds, or as a stand-alone fund. It can issue a range of hedged shares. It can be established to comply with UCITS or non-UCITS rules.
Regulatory authority	Financial Conduct Authority (FCA), in the UK.	Commission Service du Secteur Financier (CSSF), in Luxembourg.
Corporate governance	In the Authorised Corporate Director (ACD) is responsible for the day-to-day operation of the OEIC. The ACD, the management company, is also authorised and regulated by the FCA.	A SICAV can have a specific management company or be managed by its Board of Directors. The latter is sometimes known as a 'self-managed company'.
Role of Depositary Custodian	A Depositary is responsible for the custody of fund assets. The Depositary is also responsible for oversight of the ACD. The Depositary and ACD must be completely independent.	A Custodian (Luxembourg-based) is responsible for the custody of fund assets and ensuring the interests of investors are maintained. Oversight is usually undertaken by the Board of Directors.

Proxy voting at possible conflicts of interest (Examples of Overseas Pension Funds)

Basis for code of conduct :

- Fiduciary responsibility as “institutional” investors : Pursuit of mid- to long-term return
- Social responsibility as “institutional” investors : Market function, Social impact

Example1) British Telecom (BTPS)、Marks & Spencer (M&S PS)、Unilever (Univest Company), etc. put emphasis on social responsibility (Signed to UNPRI)

Example2) Example of BGI* (*: Blackrock acquired from Barclays Bank.)

BGI adopted a policy not to vote to the agenda of its parent company, Barclays Bank.

Example3) Example of Fidelity (Principle2)

“(prior sentences omitted) In the context of proxy voting, where there may be a conflict with the own interests of Fidelity we will either vote in accordance with the recommendation of our principal third party research provider or if no recommendation is available, we will not vote.” (FIL Investments Japan “Policy to accept Japan’s Stewardship Code and fulfill its stewardship responsibilities.”)

Note5 : Based on interview to former BGI Head of Corporate Governance, UK by the author.

Note6 : FIL Investments (Japan) Ltd. Website (<https://www.fidelity.co.jp/fij/about/governance/stewardship.html>)

BTPS

BT Pension Scheme Voting Policy

Voting Policy

We aspire to vote all of our directly held equities and bonds and will support the recommendations of a company's board unless we have a good reason not to do so.

We outsource our proxy voting to Hermes Equity Ownership Services (EOS) and, where appropriate, we delegate voting to investment managers which can demonstrate strong capabilities.

This Policy guides EOS and our investment managers to vote our proxies in a way that is consistent with a range of best practice standards while also factoring in relevant regional differences in governance practice.

Conflicts

Where EOS identify or are made aware of any potential conflicts between the actions of EOS as an agent and the interests of BTPS, they must discuss this immediately with the relevant BTPSM personnel including Compliance. BTPSM will obtain from BT Group Plc a register of its board members directorships and their other interests and supply this register to EOS on a bi-annual basis. This should be used by EOS to monitor and manage any conflicts of interest when voting with permission on the Scheme's behalf.

In the event that we are both shareholders and bondholders of the same distressed company, EOS will need to discuss this immediately with BTPSM so that the appropriate voting action can be agreed to maximise long-term value for the Scheme as a whole.

Implementation, oversight and reporting

Our votes are cast on an electronic voting platform currently provided by ISS. The Scheme's voting activities are overseen by BTPSM. The Trustee Responsible Investment Oversight Committee monitors major voting decisions on a quarterly basis and details of the Scheme's voting records are made available to Scheme members and other stakeholders on the BTPS website quarterly in arrears.

Source : BT Pension Scheme website

BTPS: BT Pension Scheme

BTPSM: BT Pension Scheme Management Limited

Marks & Spencer

Marks and Spencer Pension Scheme - Responsible Ownership Policy Statement

GENERAL APPROACH

Marks & Spencer Pension Scheme ('M&S PS') believes that having engaged owners who are clear about their expectations will help companies produce sustainable value and that companies' long-term financial returns are connected to their strategic, environmental, social and governance performance.

M&S PS has appointed Hermes Equity Ownership Services ('EOS') to act as its agent in carrying out public policy, best practice and corporate engagement across all equity and corporate bond portfolios and voting for any / all segregated equity portfolios held within its defined benefit pension scheme at any point in time. M&S PS believes in the value of collaborative shareholder action and where applicable, will communicate and collaborate with other shareholders. Hermes EOS assists M&S PS in fulfilling its undertakings as a signatory to the UNPRI and as a signatory to the UK Stewardship Code.

Hermes EOS typically conducts engagement and voting related dialogues with companies in confidence and will not disclose M&S PS's involvement in such engagements, unless specifically agreed in advance. For companies identified by M&S PS as being of particular interest to M&S PS, Hermes EOS will revert to M&S PS for further instructions before abstaining, exercising a vote against management or in favour of a shareholder resolution and in advance of engaging with these companies. This consultative approach is also adopted by M&S PS with regard to the indexed equity fund managers who manage pooled equity vehicles on behalf of the Scheme.

Source: Marks and Spencer Pension Scheme website

Unilever

Voting

Hermes Equity Ownership Services (Hermes EOS), a third party specialist we appointed in 2013, vote on our behalf at the Annual General Meetings, and other meetings, of companies where the Fund directly holds shares. Hermes EOS has a [standard policy](#) setting out how they will vote in certain circumstances, and we have agreed to adopt this policy as it is in line with our investment beliefs.

Hermes EOS provides a report on how they have voted every quarter which is reviewed by the Uninvest Company, Unilever's in-house investment services company.

You can download the latest voting report [here](#). You can also find previous reports at the bottom of the page.

Engagement

To support our belief that well governed companies perform better over the long term, Hermes EOS engages with certain companies on our behalf to encourage them to improve in the ESG area.

They provide a quarterly report on their engagements which is also reviewed by the Uninvest Company.

You can download the latest engagement report [here](#). You can also find previous reports at the bottom of the page.

We use Sustainalytics B.V., another third party specialist, to analyse the sustainability of the companies we have invested in. This kind of analysis gives us a guide to how well these companies manage ESG issues, as well as highlighting any that are carrying a high ESG risk. The outcome of these services allows the Uninvest Company (overseen by the Fund's Investment and Funding Committee) to challenge our investment managers.

Source: Unilever UK Pension Fund website

Reference Information: ALFI Code of Conduct



guidelines

Principles

- I. The Board should ensure that high standards of corporate governance are applied at all times
- II. The Board should have good professional standing and appropriate experience and ensure that it is collectively competent to fulfill its responsibilities
- III. The Board should act fairly and independently in the best interests of the investors
- IV. The Board should act with due care and diligence in the performance of its duties
- V. The Board should ensure compliance with all applicable laws, regulations and with the fund's constitutional documents
- VI. The Board should ensure that investors are properly informed, are fairly and equitably treated, and receive the benefits and services to which they are entitled
- VII. The Board should ensure that an effective risk management process and appropriate internal controls are in place
- VIII. The Board should identify and manage fairly and effectively, to the best of its ability, any actual, potential or apparent conflict of interest and ensure appropriate disclosure
- IX. The Board should ensure that shareholder rights are exercised in a considered way and in the best interests of the fund
- X. The Board should ensure that the remuneration of Board members is reasonable and fair and adequately disclosed.

ALFI Code of Conduct 1/10

Expectation level to 10 Principles

Recommendations

- I. The Board should ensure that high standards of corporate governance are applied at all times.

Recommendations

1. The Board is accountable to the investors for good governance.
2. The Board should ensure that sound management is in place.
3. The Board should discharge its functions soundly, honestly and professionally.
4. The Board should place emphasis on promoting transparency, good practices and conduct of business rules and efficiently manage conflicts of interest.
5. The Board should provide independent review and oversight, including effective oversight of delegated functions.
6. The Board should demonstrate leadership, integrity, ethical behavior and expertise.

ALFI Code of Conduct 2/10

- II. The Board should have good professional standing and appropriate experience and use best efforts to ensure that it is collectively competent to fulfill its responsibilities

Recommendations

1. The composition of the Board should be balanced and diverse so it can make well-informed decisions.
Members of the Board should therefore have appropriate experience, with complementary knowledge and skills, relative to the size, complexity and activities of the fund.
2. Consideration should be given to the inclusion in the Board of one or more members that are, in the opinion of the Board, independent.
3. The Chairperson, whether appointed on a permanent, ad hoc or rotating basis, should demonstrate leadership during as well as outside meetings. The Chairperson's duties should include setting the agenda, managing the meeting, steering the discussions and ensuring that effective and fair conclusions are reached.
4. The Board should ensure that it keeps abreast of relevant laws and regulations and that it remains vigilant about evolving risks and market developments.
5. The Board may call upon expert assistance and/or create Board committees for the proper fulfillment of its duties. The establishment of Board committees should not affect the collective responsibility of the Board.
6. The members of the Board are expected to understand the activities of the fund and devote sufficient time to their role.
7. The Board should conduct a periodic review of its performance and activities.

ALFI Code of Conduct 3/10

III. The Board should act fairly and independently in the best interests of the investors

Recommendations

1. The Board should at all times put the interests of the investors first.
2. The Board is expected to act fairly and independently irrespective of any Board member's affiliation.
3. The Board should arrive at decisions taking into consideration, where possible, any broader potential impact of such decisions on market integrity and on the wider community.
4. Fund expenses and their impact on fund returns should be subject to scrutiny by the Board. The Board should ensure that the expenses charged to the fund are reasonable, fair and appropriate.

ALFI Code of Conduct 4/10

IV. The Board should act with due care and diligence in the performance of its duties

Recommendations

1. Board members should regularly attend and participate actively at Board meetings.
2. The Board should meet as often as required in order to oversee effectively the fund's activities and all Board meetings should be formally minuted.
3. The Board is responsible for approving the fund's strategy and for ensuring that the fund consistently follows its stated investment objectives.
4. The Board is responsible for the appointment of delegated parties and should oversee their activities and performance.
5. The Board should ensure it acts on a fully informed basis.
6. Where required, the Board should seek external professional advice or information to assist it in its duties.

ALFI Code of Conduct 5/10

- V. The Board should ensure compliance with all applicable laws and regulations and with the fund's constitutional documents

Recommendations

1. The Board should verify that adequate organisation, procedures and safeguards are established to ensure compliance with all relevant laws and regulations and with the fund's constitutional documents.
2. The Board should verify that regular monitoring of such compliance is in place and that it receives regular reports to that effect.

ALFI Code of Conduct 6/10

VI. The Board should ensure that investors are properly informed, are fairly and equitably treated, and receive the benefits and services to which they are entitled

Recommendations

1. The Board should ensure that the information provided to investors about the fund particularly with regard to the fund's investment objectives, risks and costs, is true, fair, timely and not misleading.
2. The Board should ensure that investors are kept informed of matters relevant to their investment in a form and language that is clear and easy to understand.
3. The Board should ensure that information relating to the fund's financial situation and performance be prepared and disclosed in accordance with relevant accounting standards (e.g. Lux GAAP, IFRS) and applicable legal and regulatory requirements.
4. The Board should take into account the interest of all investors, in particular where Board decisions may affect investor groups differently.
5. The Board should ensure each investor complaint is reviewed and, if it is upheld, that redress is provided within a reasonable time.
6. The Board should ensure that investors receive the benefits and level of services to which they are entitled as defined by law, contractual arrangements and the fund's constitutional documents.
7. The Board should ensure that there is adequate disclosure to investors of the fund's policies on complaint handling, proxy voting, best execution and conflicts of interest.

ALFI Code of Conduct 7/10

- VII. The Board should ensure that an effective risk management process and appropriate internal controls are in place

Recommendations

Risk management

1. The Board should ensure that an adequate and documented risk management policy is established, implemented and maintained which identifies the risks to which the fund is exposed and how such risks are managed.
2. The Board should ensure that the permanent risk management function is adequately staffed, or properly managed when provided on any outsourced basis, and that it is independent of the investment and operational processes.
3. The Board should ensure that the risk management policy enables the proper identification, measurement and assessment of the fund's exposure to market, liquidity and counterparty risks, and exposure to all other risks including operational risks.
4. The Board should ensure that it receives regular risk management reporting and that it regularly assesses the adequacy and effectiveness of the risk management policy and processes.
5. The Board should ensure that it understands the impact of any complex financial products or strategies on the risk profile of the portfolio and the aggregate exposure of the fund to these products.

ALFI Code of Conduct 8/10

Internal controls

6. The Board should seek assurance that delegated parties comply with relevant and adequate Compliance and Internal Audit obligations.
7. The Board should ensure that Compliance and Internal Audit functions are independent of the investment and operational processes.
8. The Board should require direct and timely reporting of any material internal control and compliance issues, and ensure that they are appropriately addressed.
9. The Board should ensure that appropriate business continuity plans are in place, including for delegated parties.

ALFI Code of Conduct 9/10

VIII. The Board should identify and manage fairly and effectively, to the best of its ability, any actual, potential or apparent conflict of interest and ensure appropriate disclosure

Recommendations

1. The Board should identify the circumstances which constitute or may give rise to a conflict of interest which may entail a material risk of damage to the interests of investors.
2. The Board should establish, implement and maintain an effective conflict of interests policy (i) to identify such conflicts of interest and (ii) to provide for procedures to be followed and measures to be adopted in order to prevent them where possible and to manage such conflicts in an independent manner.
3. The Board should make all reasonable efforts to resolve conflicts of interest but in cases where a conflict of interest is unavoidable, the Board should seek to address it on an arm's length basis and to disclose it adequately to interested parties.
4. The Board should keep an updated record of the situations where conflicts of interest entailing a material risk of damage to investors may arise, have arisen and how they have been addressed.

ALFI Code of Conduct 10/10

- 4. Summary information on the exercise of voting rights should be made available to investors with detailed disclosure upon request.
- X. The Board should ensure that the remuneration of Board members is reasonable and fair and adequately disclosed.

Recommendations

- 1. The Board should ensure that where appropriate a policy on remuneration of Board Members, is in place and is adequately disclosed.
- 2. The remuneration of Board members should reflect the responsibilities of the Board, the experience of the Board as a whole and be fair and appropriate given the size, complexity and investment objectives of the fund.
- 3. The remuneration of Board members charged to the fund should be separately disclosed in the annual financial statements either individually or collectively.



Notice

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