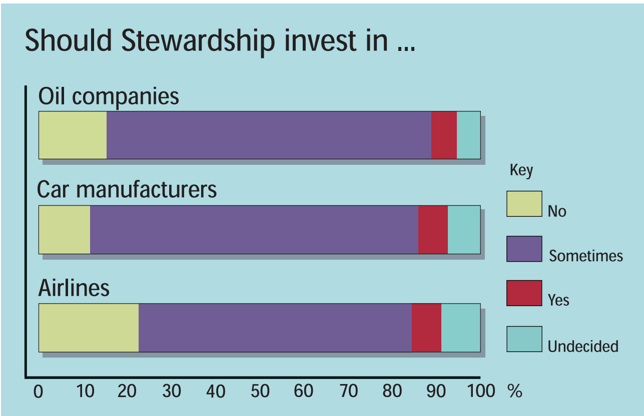
FRIENDS principles

The newsletter of the **Stewardship Funds** Issue 14 Winter/Spring 2003

Greenhouse gas survey

Poll of Stewardship investors demonstrates concerns for greenhouse gas emmissions but supports investment in leading companies

In July 2002 we issued a brief questionnaire* to over 40,000 Stewardship Unit Trust investors to help us to understand investor opinions on three contentious investment areas where greenhouse gas emissions are of great concern - oil companies, car manufacturers and airlines. To our delight 10,223 investors responded - a number that we are confident should fairly represent the views of Stewardship's investors.



Many Stewardship policy areas are relatively straightforward to research. For example a company either is or is not involved in tobacco production. Not surprisingly however some environmental issues, such as greenhouse gas emissions, are rather more complex.

Sometimes it is clear that a company is not acceptable on environmental grounds. However some industries pose complex dilemmas for the Stewardship Committee of Reference as they have both positive and negative impacts. For instance some companies within such industries may be the source of substantial greenhouse gas emissions, but yet be working hard to reduce them. A small number of oil companies, car manufacturers and airlines** fall into this category.

Given their activities have a relatively high impact, but that their products are also widely used and in many cases are considered necessities, a blanket exclusion on investment in them (with no attempt to encourage or support better practices) could be at odds with the aims of many ethical investors. The complexity associated with these three areas led us to ask investors whether or not they thought we should invest their money in them.

The results were as follows:

In each case more investors said that companies in these sectors should be excluded (oil companies 15%, car manufacturers 12%, airlines 23%) rather than included (around 6% for each). However, the overwhelming majority in each case said that investment 'in certain circumstances' should be allowable - although airlines (at 62%) were less acceptable than oil companies (74%) and car manufacturers (74%). Broadly speaking the 'certain circumstances' scenarios were that companies should 'clearly demonstrate that they are trying to reduce greenhouse gas emissions' and are 'committed to the development of better technologies and better business practices'.

We are delighted with the clear guidance we have been given by investors, as it endorses the cautious but not entirely exclusionary approach the Committee has tended to adopt. This information and your many comments will help the Committee when they review companies in these sectors in future, and will also assist our Governance and SRI analysts when they engage with companies.

The results demonstrate that Stewardship investors not only care deeply about greenhouse gas emissions, but are also willing to support companies that are making real efforts and progress. We would also like to thank everyone who took the trouble to respond to the survey.

*Questionnaire printed on recycled paper

**See the Royal Commission on Environmental Pollution report - www.rcep.org.uk

Inside *principles*

FRIENDS PROVIDENT

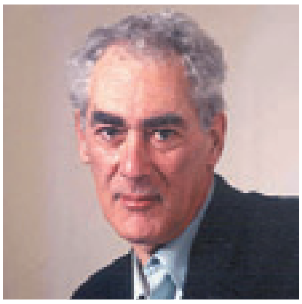
Committee of Reference

News and views

Charles Medawar retired from the Committee of Reference (CoR) at the end of June, having been a member since it started work in 1984. He was a founder director of Public Interest Research Centre Ltd and Social Audit Ltd, and writes, lectures and broadcasts frequently as a specialist on medicine policy, drug safety and questions of corporate social responsibility relating thereto. The contribution he has been able to make to the Committee's work from this unique experience has been of huge value.

In this article, Charles reflects on those 18 years, and one of the challenges he sees for ethical investments now and in the future.

'Never soften the outrage'


Charles Medawar

This summer I retired after an 18-year stint on Stewardship's Committee of Reference. It was sad, of course - all the more so because my departure would in no way allow me to spend more time with friends and family. On the contrary, it means getting my head down, lower than ever before, to pursue a passionate professional interest in corporate social responsibility in the world of medicines.

But alas, eighteen years on, I am still not much closer to deciding whether or not even the best of the major pharmaceutical companies qualify as 'ethical investments' - the problem is that the bottle is both half empty and half full. On the one hand, it would be mad not to celebrate the great benefits of medicine; on the other, it seems increasingly mad to accept these companies on their own terms. I shall explore this paradox in the future: I have a feeling a book is coming on...

Looking back, the CoR still seems to me an idea ahead of its time - but quite apart from its function as a source of advice and judgment on the social value of individual stocks and shares. More than this, you have in the Committee structure something that arguably every company needs - an independent interface between corporate leadership and the company's constituency.

There are countless reasons for thinking that all kinds of companies could benefit from the same, but the nub of it is about constructively challenging the corporate mind, in the very best traditions of a 'loyal opposition'. Yes, it can sometimes lead to discomfort and some degree of friction is inevitable. Yet time and again, I also saw how the Committee could lend perspective, sharpen management thinking, and check, test and stimulate ideas.

But how well has the CoR fared in its specific function - to define and oversee the development of Socially Responsible Investment? The only answer, I feel sure, is that effective and conscientious investment seems far more likely to work with strong independent oversight, than without it. Beyond this, it is hard to be more than anodyne: I hope and believe we get it about right, most of the time - although I confess that sometimes we got it exactly right for quite the wrong reasons.

I will not embarrass the investment managers by listing all the companies where, for essentially 'ethical' reasons, the CoR advised against some investment - only to see the share price plummet soon after, for some quite unrelated reason. But it happened often enough for me to come to believe in something like a sixth sense - something beyond the logical nicety of the relationship between cause and effect, but something that still worked well.

I am going to miss all this and much besides but, in the moment of leaving, I have also taken something precious with me - over and above the gratitude and affection it was always so easy to feel towards colleagues engaged in the quest. The best thing of all was one of the inscriptions on the leaving card I was given by fellow members of the Committee. It was signed by the Chairman, Roger Morton, now the only serving member to be appointed when Stewardship was founded in 1984. Not for a while yet please! but I want it on my gravestone: "Never soften the outrage", he wrote - and I hope I never will.

And a return to Committee duties...

Brian Sweetland has replaced Charles on the Committee, and now occupies one of the two seats which may be filled by Friends Provident or ISIS Asset Management. These are to facilitate communications between the Committee and these two companies.


Brian Sweetland

His appointment in fact marks a return to the Committee for Brian, as he was its secretary during its first few years. At Friends Provident, he is company secretary and an executive director with responsibility for the Group's corporate services, thus bringing to the committee active experience in many issues relevant to its work at the heart of Stewardship, such as corporate governance, corporate social responsibility, health and safety and employment.

Brian is a member of the Institute of Directors' Professional Standards Committee and also a non-executive director of ISIS Asset Management Plc and Benchmark Group Plc. He is a Trustee of the Friends Provident Charitable Foundation.

Reasons for investment

Porvair Plc

Porvair Plc is a British advanced materials group, that develops and manufactures materials featuring microporous structures. These are used in industrial membranes, foul weather clothing, insulation and medical diagnostics. In 2001, the company committed to a three year programme to develop materials for fuel cells - a very positive and forward looking strategy.

A fuel cell offers the benefits of enhanced energy efficiency, reliability and reduced or zero pollution compared to conventional combustion. Using membranes and some clever chemistry, a fuel cell reverses the well known school chemistry experiment of passing electricity through water to get hydrogen and oxygen. In a fuel cell hydrogen is combined with oxygen from the air, to produce only water and electricity. As it is a chemical rather than a mechanical reaction, fuels cells are inherently more reliable, quieter and vibration free. Potential uses include power generation, portable electrical equipment and motor vehicles - the first fuel cell buses should arrive in London around June 2003.

The company has committed a high level of investment to developing fuel cell component technology, as well as high-volume production methods. In 2001, Porvair was the only UK listed company to receive a development grant, of $6.1 million, from the US Department of Energy. This grant is being used by Porvair's Fuel Cell Technology Division to broaden and accelerate its research.

In a recent statement Porvair announced that it expected to be making initial commercial shipments of its fuel cell components in 2003. The company also said that applications outside the fuel cell market were developing fast and a significant first order has already been received for components which will facilitate pollution control in the woodpulp industry. www.porvair.co.uk

Next Plc

Next has over 330 shops in the UK and is a leading retailer of clothing, accessories and fashion jewellery. Stewardship sees the company's provision of clothing as positive for society. Next is also a corporate sponsor of the Fund for the Replacement of Animals in Medical Experiments (FRAME).

The company employs more than 17,000 people in the UK, and so equal opportunities are a key potential concern. Next has an excellent policy on this, with good monitoring of practice against it.

Next is increasingly buying products from overseas, which raises concerns about labour standards, like pay levels and working conditions. However, the company is developing systems for management of these issues. It has joined the Ethical Trading Initiative, and operates a code of conduct that sets minimum working standards conditions for its suppliers. These meet those stipulated internationally by the UN and International Labour Organisation Convention.

The company also monitors compliance with its standards and provides training on labour standards issues for employed staff. ISIS included Next's labour standards in its engagement programme and has found the company responsive and keen to further develop good practices.

www.next.co.uk

FedEx Corporation

FedEx, the global freight and package delivery service, has played a major part in turning the 'overnight, anywhere' delivery service, principally by air, into a commercial product.

Delivering to over 200 countries across the world, FedEx's environmental impact is a concern. But within this sector, FedEx has a clear and impressive environmental policy and management system. It includes monitoring, training and education, as well as consideration of environmental performance when reviewing the work of managerial staff.

FedEx has participated in a number of US voluntary government programs including Energy Star, Green Lights and WasteWise. ISIS has included FedEx in its engagement programme, to encourage best practice in the management of its impact on climate change.

In 2002 FedEx was included in Fortune magazine's '100 Best Companies To Work For In America' list, and was praised for its management philosophy of high involvement, under which employees are given substantial autonomy. FedEx also has an informal policy of no compulsory redundancies: if an operation was to close or job cuts needed, FedEx would try to absorb employees elsewhere in the company, before resorting to redundancy. Unlike most major air carriers, no compulsory redundancies have occurred in the wake of the terrorist attacks in the US.

The company has been instrumental in creating overnight delivery as a distinctive service. Its expertise and facilities began its now 7-year alliance with the American Red Cross, aiding quick response to disasters around the world by shipping and storage of emergency supplies.

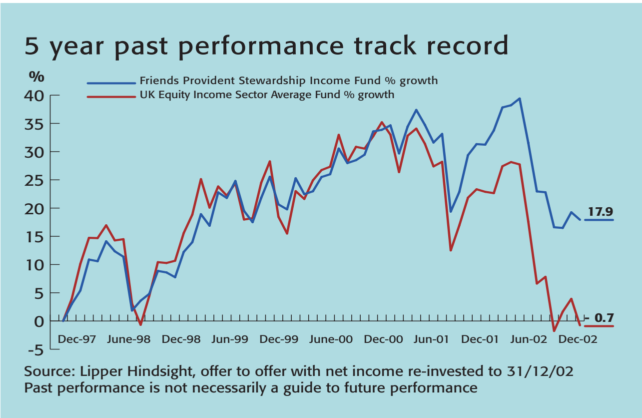
www.fedex.com

FundWatch

With uncertainty in the stock market continuing, the relatively cautious approach of the Stewardship Income Fund warrants a closer look.

The Fund is classified as a UK Equity Income fund. To be included in this sector, such funds have an objective of paying income greater than the average UK stock market-based fund.

The income (known as the yield) requirement is to exceed that of the FTSE All Share Index by 10% or more. On January 7th 2003 the estimated gross dividend yield on the FTSE All Share Index was 3.49 % per annum. On the same date the estimated gross running yield on the Stewardship Income Fund was 4.70% per annum. Yields may vary.



The chart above shows the performance of the Stewardship Income Fund versus the UK Equity Income fund sector average.

Over the last 5 years, returns from stock market based investment have been poor. However the relative performance of the Stewardship Income Fund has been very creditable. During this period the fund was ranked 13th out of 70 funds in the sector, which is impressive given its strict ethical investment policies.

The rigorous ethical stance of the Fund means that many of the higher yielding company shares available to other funds - such as banks and oil companies - are simply off limits.

The fund manager, Ted Scott, has met the high income target and also achieved above average performance by adopting a 'barbell' approach. This entails holding UK corporate bonds (currently 10% of the fund value) and utility stocks (about 20% currently) to increase the income yield generated by the fund.

The balance is invested in a broad portfolio of medium and smaller sized UK company shares, with the emphasis on growth rather than dividend income generation. Again, this bias is a result of the universe of stocks available that meet the ethical screening criteria of Stewardship.

With this higher level of income, we believe that the fund will remain attractive for more cautious investors, who demand a strictly screened ethical investment. The Stewardship Income Fund also has the distinction of being a Lipper Leader for Preservation of Capital.

New Stewardship International fund manager

Sophie Horsfall

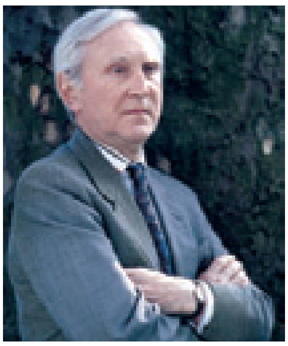
We are pleased to announce the new fund manager for Stewardship International is Sophie Horsfall.

Sophie began her career in 1996, at Kleinwort Benson Investment Management (now Dresdner RCM Global Investors Plc). After a year as European Oils and Chemicals analyst, Sophie was promoted to fund manager, Global Equities. She joined ISIS Asset Management Plc, Friends Provident's Fund Manager, in 2001, where she is Associate Director, Global Equities.

Ethics matters

Johannesburg retrospective

By Sir Crispin Tickell



Anyone involved in ethically and environmentally screened investment will have been interested in what happened - or did not happen - at the World Summit on Sustainable Development at Johannesburg last summer.

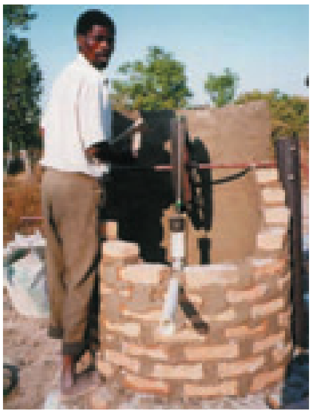
It was the third such Summit. The first was on the environment in 1972; the second began to extend the scope to environment and development in 1992; and the third cemented both themes together in 2002. It's in fact impossible to separate them but sustainable development is an elusive concept: as a sound bite once put it, it means treating the earth as if we intend to stay here and that, in turn, means our future as well as the present, and the welfare of the planetary environment as a whole.

By and large the British press was unkind to the Summit. Journalists wrote about windy rhetoric, greenhouse gases from aircraft flying to and fro, caviar and champagne enjoyed over continents stricken by famine, the widening gap between the world's haves and have-nots, tedious repetition of previous commitments and a deluge of platitudes. Informed comment was seriously lacking. Whatever its shortcomings, the Summit deserved better.

At the very least, conferences of this kind compel world leaders to take pause and think about the big problems. The

UN Secretary General set out a good five point agenda: issues of fresh water and sanitation, generation of energy in all its forms, human health, the future of agriculture and not least the conservation of the diversity of life on which we, like other organisms, depend. Apart from governments, a vast array of non-governmental organisations and special interest groups attended the conference. In formal terms, the results of the conference were a political declaration, a plan of implementation and an assembly of so-called partnerships.

Some progress was made on specific issues: notably on over-fishing and marine reserves; improving sanitation world-wide; developing renewable energy sources, particularly in poor countries; reductions in the use of harmful chemicals; and a special focus on poverty in Africa. Russia and Canada agreed to ratify the Kyoto Protocol on reduction of greenhouse gas emission. Throughout, there was welcome emphasis on the need for good governance, and respect for the rule of law and human rights. More important for business and industry were commitments, (some of them reaffirmations) on reducing trade barriers, improving access to industrial country markets, furthering partnerships between public and private enterprises, and generally tackling the downsides of globalisation.



Pumpaid.org

Water: crucial to everyone, but requires investment and some basic technology.

Of course, government figureheads played the leading role in Johannesburg, at least in public. There were good and bad speeches from world leaders. President Mugabe of Zimbabwe made a poisonous intervention, little to do with the subject and so probably damaged still further the economic prospects for his country. President Bush chose not to attend and sent his Secretary of State, who suffered barracking during his speech. It must be acknowledged that the United States played a generally negative role, and stands accused of irresponsibility on several major global issues. On the other hand, the members of the European Union, acting individually and collectively, worked effectively together. Without the European Union, there might have been no agreements at all.

Many government leaders also made statements outside the conference chamber. Our own Prime Minister took the opportunity to commend the London Principles, which represent a voluntary code for financial institutions demonstrating a commitment to the financing of sustainable development. He drew attention to the need for companies to build environmental and social considerations into their core business.

The work of non-governmental organisations of all kinds, business and industry, local and regional authorities was less tangible but in the long run is perhaps more important. The same went for the role of science: there was a separate forum at which the issues of the application of science and technology were discussed, sometimes between unlikely partners: elsewhere this might have been impossible. We have yet to see how some of these partnerships will work but some should do well and become models for others.

Nonetheless, it is hard to avoid disappointment - a real opportunity was missed. In advance of Johannesburg the United Nations had set up six regional round tables of so-called eminent persons to prepare for the conference. I chaired the one for Europe and North America, and together we worked out some radical recommendations. Among these were that citizens and governments alike had to rethink what they really meant by 'development'; that the consumerism of the industrial world and increasingly elsewhere was unsustainable; that measures to cope with climate change should be given high priority; and that new international institutions were needed to co-ordinate work on a whole range of issues. Most important, we felt that current economic thinking was simply inadequate. We need pricing systems that take account not only of traditional costs, but that also involve replacing resources and those that take account of the damage that depletion of resources can do. Many complain about the costs of sustainability. But they have yet to calculate the cost of unsustainability. Very little of all this filtered through to the conference itself.

Fishbase.org/Dr Jaques Moreau

Overfishing of cod in the North Sea means dwindling supplies, and threatens a species collapse there.

Public debate on sustainable development has been somewhat swamped since then. But we must not let go of it. We have to change our minds in so many ways and on so much. Corporate responsibility, which takes account of social and environmental issues as well as economic considerations, and looks to the long as well as the short term, is one of the most important developments of our time. It comes from business and finance, including insurance, as much as government. In this, Friends Provident is a pioneer.

Sir Crispin Tickell, GCMG, KCVO, who is a member of the Stewardship Committee of Reference, retired from the Diplomatic Service after a distinguished career at the Foreign Office and overseas, which culminated with his appointment as the UK's Permanent Representative at the United Nations. Several non-executive directorships in industry followed, and since 1990 his keen interest in environmental and sustainable development issues has taken prominence as chairman, trustee or member of many authoritative bodies in the field. He has published widely on the subject, and his work has been recognised with some 20 honorary doctorates, awards, medals and honours in the UK and across the world.

The news room

FIS name changed to ISIS

On 30th September 2002, our fund managers, Friends Ivory & Sime (FIS), and Royal & Sun Alliance Investments, merged to create a new enlarged investment house, ISIS Asset Management Plc.

In combining these businesses, ISIS has created a powerful resource in the investment industry, bringing together the best individuals, products and processes from each company. ISIS continues to be a listed subsidiary of Friends Provident.

Commenting on the name change, Chief Executive Officer Howard Carter, said, "The change of name to ISIS is a natural transition. Fundamentally, we are now a very different company".

Public *reo*® report published

One of the earliest major developments from the newly formed ISIS was the publication of the first publicly available SRI report on company engagement.

The 20-page quarterly report, drawn up by the Governance and SRI (GSRI) Team can be obtained from the ISIS website, www.isisam.com It lists 55 companies in which ISIS invests, detailing whether and how they have responded to pressure to address ethical concerns.

Robert Barrington, director of GSRI at ISIS, said: "This gives investors and scheme members the transparency the SRI sector needs. We believe in showing investors what we are doing on their behalf, demonstrating engagement can influence company behaviour." He said it would show there was no mystic 'green mist' around engagement.

New SRI investment bond fund links

On 2nd December 2002, we were pleased to announce two new SRI fund links to our flagship Investment Portfolio Bond (IPB).

One of these is our exciting and innovative new Ecotec Fund that you may remember we announced in the previous edition of Principles.

The other fund link is the Stewardship International Fund to add to the existing Stewardship and Stewardship Managed Funds, which were already available with this bond.

Stewardship sponsored Rio+10 Earth Festival

Stewardship was proud to be the principal sponsor of the Rio+10 Green Roadshow, which visited Salisbury in September.

Friends encourage responsible tourism

Friends Provident is sponsoring a new internet portal site, www.responsibletravel.com (see also our article on page 7) which promotes a wide range of responsible holidays. All holidays are pre-screened to meet minimum social, economic and environmental criteria. Suppliers' responsible travel policies are also displayed on the site.

It also gives ideas on how to offset emissions created by your air travel with links to organisations such as Future Forests (www.futureforests.com) and Climate Care (www.co2.org) who support clean and renewable energy programmes, and activities such as tree planting.

UK Social Investment Forum (UKSIF)

Julia Dreblow

Julia Dreblow, SRI Proposition Manager at Friends Provident, has been co-opted onto the board of UKSIF to chair a new sub-committee that is being set up to consider how retail ethical investment can be moved forward and made more accessible to a greater number of investors.

www.uksif.org

You say ...we answer

Northern Rock's advertising

Unitholders have written about our investments in the Northern Rock Building Society, currently among our Top Ten Stewardship Trust holdings.

Of concern has been their advertising campaign, particularly the one for 'Together Mortgages', which features a skit about a wife-swapping affair. The complaint is that this promotes sexual irresponsibility and so questions the company's place in the Stewardship Trusts.

Stewardship has a clear policy statement on the style of advertising that prevents us from investment. We will not invest in any company whose advertising is deceitful or offensive, and we also pay attention to questions of taste. This can raise dilemmas, as it is a particularly subjective and individual area. It's particularly difficult to make judgements when advertisers believe they are using humour to make a point.

In order to gauge the breadth and depth of public opinion on such issues, we tend to take particular note of decisions of regulators, such as the Advertising Standards Authority and the Broadcast Complaints Commission. As part of its ongoing audit process, the Committee of Reference periodically reviews all Stewardship investments, and monitors complaints about advertising.

On the evidence of a single controversial advertisement and the absence of an adverse ruling from the Advertising Standards Authority, the Committee of Reference view is that Northern Rock does not contravene our policy.

Developing policies, and your views

In the past few months we have had several letters from Stewardship investors asking why we issued the recent questionnaire on greenhouse gases with regard to the oil, airline, and car industries only. (see page 1).

Stewardship seeks to lead the way on climate change and with the issue coming under more and more scrutiny, we have recently been reviewing our policy in this area. Oil companies, car manufacturers and airlines were three areas of industry where opinion is widely divided, and which have caused us particular concern when deciding whether or not to invest in companies active in those areas. The questionnaire was designed to help guide the Committee of Reference to formulate a revised climate change policy, and when making future Stewardship investment decisions.

The questionnaire results have given us a valuable insight into Stewardship investor opinions. We believe that a consultative approach such as this is essential for ensuring that Stewardship policy broadly reflects the values of our investors. As such investor research is an essential part of our policy development process - in particular where new issues or information come to the fore, or when we are reviewing complex, contentious areas. We always welcome the views and opinions of Stewardship investors and thank everyone who responded to this survey.

Travel with care

Online travel and ethical choice Travel was once the privilege only of the moneyed classes, but it is now on everyone's agenda. Increased mobility has been as much a key to globalisation as the IT revolution, and the travel and tourism industry has grown to become one of the global economy's most important sectors.

This explosion in mobility has unfortunately come at a price. For example, aeroplane emissions are acknowledged to be a major contributor to global warming; and there is a wealth of evidence pointing to the detrimental impacts tourism has on natural, cultural and socio-economic environments.


Responsibletravel.com

An 'Eco-lodge' in the Amazon, an example of a responsible holiday destination.

The need to inject sustainability into travel and tourism was highlighted at the 2002 Johannesburg Earth Summit. Non-Governmental Organisations have started campaigning on the issue, and concern is growing. Tour companies increasingly feel the need to address sustainability: some 20 of them have now joined to form the Tour Operators' Initiative for Sustainable Development.

The travel and tourism market is becoming increasingly competitive. At one end of the spectrum, a new albeit niche market for ethical holidays is developing. At the other end, no-frills airlines such as EasyJet and Ryanair compete with cut-throat prices. Their success is characteristic of the profound way in which the Internet has changed the travel industry.

On the Internet the consumer can access much more information, quickly and conveniently, and in order to remain competitive, tour operators have had to establish Internet presences. Obviously, travel companies that have simply added a website should be held accountable for their supply chain management, in the same way as their 'bricks-and-mortar' counterparts. However, this virtual market place is also populated by online booking agencies such as e-bookers and lastminute.com and others which enable consumers to go on a web-based bargain-hunt to find the best deal.

Online travel agents make agreements with travel and tourism companies to offer services and deals online. They are therefore intermediaries, so-called 'infomediaries' and as such are not directly involved in actual service delivery, the development of products or the consequences.

Many online travel agents now offer this service. However, any single one is unlikely to have the commercial clout over the service providers to be able to impose social, environmental or ethical standards, or inspire them to do so. Unless an online agent specialises in ethical or 'green' tourism products, it is dubious whether online travel agents can be held accountable for the ethical credentials of the operator.

Where they can make a difference is in the quality of customer information. The more responsible online agent could include guidelines for socially, environmentally and culturally responsible behaviour, or provide links to relevant sites. This would give an indication of how committed the travel operators are to ethical issues, so allowing for comparisons, and offering even more informed decision-making to consumers.

Stewardship investors are also customers of the travel industry, and therefore have a double influence over the development of ethical travel and tourism - a dual power to effect change.

The deliberate choice of an ethical holiday is as important when surfing the Internet, as thumbing through the brochures in the high street travel agency. So, the next time you click to book your holiday online, think about how you could make sure that your choice reflects your ethics..

The reo®ganisation

Scandals and governance

During the past year the business world has been rocked by several high profile financial scandals. The wave of 'corporate greed and excess' reported in the media has pushed accountability by good corporate governance high up the investment community's agenda.

The need for checks and balances from good corporate governance is becoming critical, for legal, moral and shareholder value reasons. In the US, CEOs and CFOs must now personally sign off accounts: if later found to be fraudulent, it can mean prison terms. In the UK, the government has begun a review of the role of non-executive directors, and has also published a paper on shareholder action encouraging investors to play a much more active role.

Friends Provident has been talking to company boards about corporate governance issues since 1984. Not only do we regularly use our shareholder votes, but we often enter into dialogues with companies.

Our policies for voting and engagement activities are open, and supported by detailed Operational Guidelines and a Corporate Social Responsibility (CSR) and Governance policy. This builds on the requirements of the Combined Code and the Association of British Insurers' (ABI) Guidelines on Socially Responsible Investment.

We firmly believe that CSR and governance cannot be separated. Within the Governance and SRI team at ISIS, our fund manager, there is an integrated, experienced Governance team, headed by Corporate Governance Director Richard Singleton.

Rather than using a 'tick-box' approach, we believe in constructive dialogue to encourage a good CSR and general governance culture. As part of our new policy we have a governance and CSR programme which over the last year has led us to engage extensively with companies on CSR issues. We want to encourage them to take account of social, ethical and environmental issues, and to be open when these represent significant risks and opportunities.


Richard Singleton

Summer 2002 was marked by broadened activity. We wrote to all companies where we have holdings, stressing our views on CSR and governance. In addition, we contacted 160 companies, telling them why we decided not to support management on particular shareholder resolutions at AGMs.

As pioneers of good governance, we have contributed to the government's consultations, steered by Derek Higgs, on the role of non-executive directors. Here we strongly advocated non-executive directors taking a higher profile on board committees, and adopting greater transparency in reporting their activities. Our advocacy for good corporate governance is longstanding and we welcome the calls for higher standards, given new prominence by the spate of corporate scandals. The programme of dialogue and shareholder voting is making a positive contribution to a climate of change. We, as investors, can and do play an important and powerful role, by setting realistic standards on governance issues, for both the investment community and the companies we invest in.

How to contact us

'Principles' is the newsletter of the Stewardship Funds and we welcome your feedback and letters on the subjects we cover and others, so we can more readily provide you with the information you want. If you require further advice on Stewardship, please get in touch with your usual financial adviser. If you don't have a financial adviser, you can contact us by telephone or visiting our website.

www.friendsprovident.com/stewardship

Alternatively, phone the following numbers:

0800 00 0080 if you would like to enquire about investing in Stewardship. (Any advice provided through this service will relate only to Friends Provident products.)

0870 607 1352 if you have an enquiry about your existing Stewardship investment.

IMPORTANT NOTE The value of an investment and any income from it is not guaranteed and can go up and down depending on investment performance. Where a trust or a fund invests overseas its value and any income from it can go up and down because of changes in currency exchange rates. Past performance is not necessarily a guide to future performance. Full details are available on request from any Friends Provident office or branch or from the address below.

Friends Provident Life and Pensions Limited is a member of the Friends Provident Marketing Group

Friends Provident Unit Trust Managers Limited is a member of that Group and is also a member of the Association of Unit Trusts and Investment Funds

Website: www.friendsprovident.com

Published by Friends Provident Life and Pensions Limited.
Registered and Head Office: Pixham End
Dorking RH4 1QA. Telephone 0870 608 3678

Incorporated company limited by shares and registered in England number 4096141

FRIENDS PROVIDENT