

17th June, 2011

Dr. Arun Gupta, MD, FIAP
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Dear Dr Gupta,

We received your letter by email from Mr Mike Brady of Baby Milk Action last week and I wanted to respond directly to the points you have made.

Thank you for commenting that you welcome our efforts to improve company practices in relation to the issue of the marketing of breast milk substitutes (BMS). FTSE4Good is the only responsible investment index globally that considers breast milk substitute marketing. However, in a number of places you have misconceptions about our aims and approach, which we would like to remedy. Before addressing the points you have raised I should provide some background on the FTSE4Good Series and what we have aimed to achieve.

We launched the FTSE4Good Series in 2001 with an aim to provide investors with an index that would measure the performance (returns) of companies that were meeting good standards in terms of environmental and social responsibility. A major feature of the index was that it should encourage improved practices in companies by setting realistic, but challenging standards for each sector. An independent committee was established to oversee the criteria and with them, and our research partners EIRIS, we set about a process to regularly introduce inclusion criteria to encourage improvements in companies around the world. Over the years we have developed and introduced criteria for environmental management, human and labour rights, supply chain labour standards, countering bribery, uranium mining, nuclear power and of course the marketing of breast milk substitutes. This continual evolution of standards has led to hundreds of companies improving their practices to remain in the index or gain inclusion.

In the infant food sector we were not able to engage the companies as they were all being excluded from the index. Our experience in other areas is that once you have standards that leading companies can meet, they will compete with others in their sector to meet the requirements and the standards can then be raised over time. This brings us to the points raised in your letter which are addressed in turn.



1. How the FTSE4Good BMS Criteria relate to the WHO Code?

You refer to our criteria being weaker than the Code which is something we do not accept. In September last year the Committee approved the FTSE4Good Breast Milk Substitutes marketing inclusion criteria which set requirements for company policies, lobbying practices, management systems, and reporting. I enclose a copy of the criteria with this letter.

The criteria build on the WHO Code, but in addition to criteria requiring company policies to be aligned with the WHO Code it goes much further by assessing how a company implements this in practice by covering internal system factors such as;

- senior level accountability and responsibility at HQ and across different country operations,
- internal training systems,
- whistle blowing,
- on-going internal and systematic monitoring of practice against policies,
- investigating and responding to allegations
- public reporting on these matters

The requirements also go a step further than they do for any other FTSE4Good environmental or social criteria area by setting out that once a company meets the criteria on the basis of documentary evidence provided to our researchers EIRIS, and is included in the index, the company is then subject to an independent verification assessment in two of the high risk countries conducted by an professional audit firm.

The verification assessment is regarding compliance with the FTSE4Good Criteria which include the factors set out above rather than against the WHO Code *per se*. Therefore a large part of the assessment is examining whether the company's policies are working in practice and if not then understanding why. In the area of BMS products there are cases where there are differences of interpretation of the Code and we will not be asking the assessors to act as a judge with regards to specific allegations but rather to assess whether the companies practices on the ground are in-line with their stated policies.

It is true that the criteria are much more focused on company practices in higher risk countries rather than low risk countries, while the WHO Code is universal in nature. In this respect the committee felt the weighting should be placed where there is the greatest risk to baby and infant lives and health, and that the tougher criteria could be expanded to cover the lower risk countries over time.

2. Selection of India and Zambia for verification assessments

To select the two countries for the verification audit we developed a country risk matrix with PricewaterhouseCoopers and the BMS Committee and got advice from those we are collaborating with which included NGOs and ethical investors. India and Zambia were selected as the outputs of the risk assessment matrix based on their high overall risk ratings, which were based on the wide variety of contributing risk factors in the risk assessment matrix. The following factors were used to generate a risk score for each of the Higher Risk Countries in the FTSE4Good Inclusion Criteria:

Child mortality, malnutrition, access to improved water, access to midwives, corruption, human development, economic development, WHO member state, BMS regulation, IBFAN allegations, and scale of Nestle activities.

BMS regulation was included in the matrix and decision process, but not given special weighting above the other important factors in the matrix. India and Zambia were in lower risk quartiles for BMS regulation but higher risk quartiles for the other indicators. Their ultimate risk scores rated these countries as high overall risk, and this was the basis for the decision taken to visit these countries. It is also worth noting that out of the 149 higher risk countries listed in the FTSE4Good BMS criteria only 18 have IBFAN allegations and this includes both India and Zambia.

We expect further verifications to take place in the future and your suggestion to give additional weighting to the BMS regulation factor will be considered by the Committee. Their aim is to have a robust and independent process to select those countries rather than the company or any specific group choosing which countries should be visited.

3. Giving companies advance notice prior to the verification

Part of the audit is based on assessing that the systems are working internally, and part is going to external sites and to understand what is happening in practice. The assessment of systems includes assessing accountability from senior executive staff down to country sales and marketing representatives, that staff understand the policy and are being properly trained, and checking that appropriate corrective actions are taken following non-compliances. In order for the audit to be effective there needs to be some coordination with the company; if for example all the sales and marketing team were away for a global company conference the week the assessors visit, it would not be satisfactory. Furthermore, I would add that FTSE has chosen to appoint a firm of professional assurance providers (PwC) to perform the assessment and they are well versed in applying scepticism when performing this type of engagement.

4. Nestle references to the WHO Code compliance

Mr Brady drew our attention to an instance where Nestle had referred to WHO Compliance in the same sentence as a reference to their inclusion in FTSE4Good. We followed up with the company noting that their assessment is based on the FTSE4Good BMS Marketing criteria rather than WHO Code Compliance.

In summary, we feel that we have developed a robust process for what is a very challenging issue. We hope to contribute to raising standards in this sector through encouraging those companies who are prepared to make improvements to do so. We feel that IBFAN has much to contribute in providing technical input into this initiative and we are disappointed that you feel that you cannot

be involved. Both myself, and my colleague, David Harris, Director of Responsible Investment, are at your disposal if you would like to discuss this with us.

Yours sincerely,



Mark Makepeace
Chief Executive
FTSE Group

CC Ms Joyce Chanetsa, Ms Yeong Joo Kean, Ms Annelies Allain