The Investor Forum Dialogue:

Critical Factors for Successful Collective Engagement

ICGN Global Stewardship Forum
4 December 2018
Agenda

- Who are we?
- What do we do?
- How do we do it?
- What have we learnt?
Speakers

- Andy Griffiths  Executive Director, The Investor Forum
- Jonathan Baird  Partner, Hogan Lovells
- Fiona Ellard  COO & Senior Adviser, The Investor Forum
Agenda

- Who are we?
- What do we do?
- How do we do it?
- What have we learnt?
Who are we?

- Established by the investment community in response to a recommendation of the Kay Review of equity markets
- The Investor Forum is an independent not-for-profit Member-based organisation, comprising 8 investment professionals, with an average of over 25 year’s experience
- The Forum’s Collective Engagement Framework is designed to enable shareholders and companies to engage in a safe and secure environment
- The aim is to help restore and build trust between companies and their shareholders
- 42 Full Members – 23 large firms, 12 boutiques and 7 asset owners – managing around £14.1tn in Global assets, with UK holdings representing approximately 30% of the FTSE All-Share market capitalisation
- Developed for and by practitioners to improve UK investor engagement
Purpose and Objectives

Purpose

- Position stewardship at the heart of investment decision making by facilitating dialogue, creating long-term solutions and enhancing value

Objectives

- Make the case for long-term investment approaches
- Facilitate collective engagement with UK-listed companies
Kay Review and Obstacles to long-term engagement

The Government-commissioned Kay Review of Equity Markets (2012) found:

- A decline of trust and misalignment of incentives throughout the equity investment chain
- Fragmentation has reduced the incentives for engagement and the level of control
- Internationalisation of ownership with 54% of UK market owned by international investors
- Perceived regulatory barriers inhibit collective engagement
- Narrow engagement focus has crowded out discussion on fundamental drivers of long-term strategy and operational execution

Taken together, this has contributed to an industry structure which too often favours exit over voice
Our Members

£14trn global assets under management = ~30% of FTSE All Share
Agenda

- Who are we?
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What does the Investor Forum do?

- The Investor Forum provides a comprehensive framework for **Company Specific Engagement**, consulting with Members to identify the underlying issues and to develop constructive solutions.

- **Stewardship 360 Engagement** takes a closer look at key engagement issues and presents practical recommendations for Members.

- We promote, advise and facilitate **Stewardship & Strategy Forums** (SSF). An SSF is a meeting between a company and its investors where the Board can demonstrate its work and address concerns through a bespoke agenda which has been tailored to address Members interests.
Overcoming Obstacles: Collective Engagement Framework

- Governance structure and procedures aim to overcome legal and regulatory challenges:
  - Insider trading (UK/EU MAR and US)
  - Concert parties under City Code
  - Regulatory filing “groups” as defined under US Exchange Act, Section 13
  - U.S. Bank Holding Company Act considerations

- The aim is to create an environment where Members feel comfortable that they will not trigger any acting in concert provisions or inadvertently receive or generate inside information

- The Legal Panel regularly reviews the Collective Engagement Framework
A Safe and Secure Model for Collective Engagement

- Members agree to comply with confidentiality obligations during engagement.
- Safe model in terms of having a bilateral model as method of communication between Forum's Executive and Members.
- Members sign the “No-Concert Party and No-Group Undertaking”.
- Companies informed that the Forum does not want to receive inside information.
- Operating procedures and engagement model help to control risk.
- Investor Forum public disclosures agreed by participants.
- "Heightened" procedures invoked when higher risks encountered.
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Criteria for Collective Engagement

- Is there economic rationale – value protection or recovery?
- Is there critical mass to engage?
- Will the engagement be constructive – seeking some solution?
- Will it be conducted in a safe and secure environment?
Collective Engagement: how does it work?

- **Member Proposal**
  - Is there critical mass?
  - Is a constructive solution possible?

- **Initiation**
  - Consult with Members
  - Develop Strategy document
  - Draft letter to company

- **Engagement**
  - Share Members’ views with company
  - Two-way dialogue

- **Conclusion**
  - Evaluate outcome
  - Lessons learned

**Bilateral investor conversations**

**Clearly defined objectives**

**Constructive company dialogue**

Creating solutions to enhance value
Identifying the core issues

Typically one of more of the following:

- Capital Allocation
- Succession & Leadership
- Board Effectiveness
- Communication – Shareholder loss of confidence
- Management Information
Building blocks

- Launched: October 2014
- First collective engagement: January 2015
- Membership model: June 2016
- Collective Engagement Framework: October 2016
- First Annual Review: January 2017
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The Track Record

- We have engaged with the Boards of 23 companies, since inception, from AIM-listed to FTSE30 market cap size.

- Participants in Engagements have ranged from 2 to 23 investors, with the market capitalisation of the company representing from 7% to 50%.

- Complementing the engagement work of Members, the Investor Forum has collectively engaged on issues ranging from board governance over strategy and capital allocation to management team execution of operational performance and management information.
Previously Reported Engagement Activity (i)

### 2017 COLLECTIVE ENGAGEMENT DASHBOARD

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## 2015/6: Comprehensive Collective Engagement Dashboard

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Lessons learned from collective engagement

- The quality of dialogue needs to improve
  - Too much time on remuneration and short-term financial developments
  - Not enough time on drivers of long-term value such as culture, ethics or wider stakeholder perspectives

- Boards need to demonstrate their oversight and effectiveness
  - Desire for evidence that Boards spend an appropriate amount of time on material issues

- Focusing on long-term value creation is a challenge for both companies and investors

- Non-financial factors have emerged as clear indicators of long term value
Critical Factors for Success

What factors were critical to the success of the Investor Forum initiative?

- Political / Regulatory support
- Support from asset managers and asset owners
- Investment experience of practitioners:
  - credibility with investors
  - corporate connections and credibility
- Legal framework / local regulatory environment: Collective Engagement Framework
- Alignment of purpose: for-profit / not-for-profit

Facilitating Dialogue, Creating Long-Term Solutions, Enhancing Value
Our Members

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The Investor Forum Panel Discussion:
Collective Engagement in practice
4 December 2018
Collective Engagement in practice

Panel Discussion

Moderator:
- Andy Griffiths
  Executive Director, The Investor Forum

Panel participants:
- Jonathan Baird
  Partner, Hogan Lovells
- Eugenia Unanyants-Jackson
  Allianz Global Investors
- Richard Joyce
  SVP Investor Relations, Reckitt Benckiser Group