



REVIEW
2018



THE INVESTOR FORUM

WHO ARE WE?

A community interest company set up by institutional investors in UK equities

WHAT DO WE DO?

We organise and facilitate dialogue between shareholders and companies

WHY DO WE DO THIS?

To help build and restore trust between companies and their shareholders

HOW DO WE DO IT?

By listening to investor concerns and explaining these to boards in a comprehensive and consistent manner

WHAT IS THE OUTCOME?

Better informed boards and a stronger level of trust and understanding – ultimately leading to improved long-term returns for savers

The Investor Forum CIC

183 Euston Road, London NW1 2BE

www.investorforum.org.uk

30 January 2019

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“ The Investor Forum is now weaving itself into the fabric of the dialogue between companies and their shareholders, with a focus on long term sustainable value and values. In a relatively short time it has gained the trust of shareholders and companies alike through thoughtful and careful analysis and quiet and effective conversations and a complete absence of grandstanding. At a time when the connection between companies and society needs strengthening its work is more important than ever. ”

Robert Swannell,
Chairman of UK Government Investments

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“ The need for more effective investor stewardship has become imperative; the Investor Forum has convincingly demonstrated its distinctive ability to help institutional investors fulfil their stewardship responsibilities. The Forum, through its collective engagement processes, is now becoming an indispensable component of the City's institutional architecture. ”

Paul Coombes, Chairman,
Centre for Corporate Governance,
London Business School

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“ Working with the Investor Forum allows both companies and investors to move beyond engagement on a single issue to a richer conversation about generating long term value. ”

Jessica Ground,
Head of Global Stewardship Schroders

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“ The Investor Forum adds value by facilitating in depth discussions between investors and companies, to mutual benefit. ”

Edward Bonham Carter,
Vice Chairman, Jupiter Fund Management

Key Messages

Creating practical solutions to protect and enhance long-term value

- ◆ We work with investors to facilitate collective engagement with UK-listed companies to create long-term value.
- ◆ We seek to position stewardship at the heart of investment decision making through three principal activities.
- ◆ We make the case for long-term investment approaches.

The Investor Forum is a membership-funded not-for-profit organisation

7 of the 10 largest owners of UK Equities are Members

Members own ~30% of the FTSE All-Share index by value¹

Company-specific collective engagement

- ◆ Evaluated 42 UK company engagements in the first 4 years
- ◆ Engaged with 23 UK companies at board level

Stewardship 360 Projects

The Forum has worked with Members to create practical insights into thematic issues, undertaking three major projects in 2018:

- ◆ Food industry sector working practices
- ◆ ADR voting practices
- ◆ Marine plastic pollution

Stewardship & Strategy Forum events

- ◆ Worked with seven companies to shape the agenda for investor meetings

Team members have an average of more than 20 years of international investment experience as asset owners, fund managers and research providers.

SINCE INCEPTION:

23

COMPANY SPECIFIC
ENGAGEMENTS

8

MAJOR STEWARDSHIP
360 PROJECTS

12

FULL STEWARDSHIP &
STRATEGY FORUMS

¹ Based on member provided data, as at 20 Dec 18.

Chairman's Introduction



Simon Fraser
Chairman
30 January 2019

The value of Collective Engagement in today's markets

During 2018 investor engagement with companies has continued to develop. Investors have a genuine interest in helping the companies they own build sustainable business models. Companies are expected to have a clear purpose and vision and to develop a culture that creates a virtuous circle for customers, employees and investors. Regulators and government are keen to encourage a more inclusive capitalism that delivers for the population as a whole in terms of customer satisfaction, competitiveness, job security and savings.

The longer-term a perspective one takes the more aligned all players should become and a virtuous circle should emerge naturally. While a thriving capitalist economy is always going to have corporate failures, there continue to be too many situations in the UK where companies have run into trouble, however, and this inevitably leads to loss in shareholder value and negatively impacts societal confidence.

It is surprising that, despite the oversight of boards, internal controls and risk management, in-depth audits and detailed investment analysis, we still see a number of corporate collapses. There have been multiple causes of these corporate failures including overly aggressive growth strategies, a lack of sustainable financial resources, weak balance sheets, inferior capital allocation and poor governance.

The Investor Forum's role is to facilitate a better dialogue between investors and boards and encourage more focus on longer-term strategic

issues that can ultimately drive real returns for shareholders. Each year we focus on a small number of engagements in great detail and provide a platform for investors to work collectively with companies so that their messages can be delivered in a consistent and constructive way.

Review of 2018

In 2018 we have focused on further enhancing our three core activities: bespoke collective engagements, Stewardship 360 thematic projects and Stewardship & Strategy Forum (SSF) meetings, with the objective of supporting our Members' engagement activity by embedding each approach more firmly in the UK investment landscape.

The Unilever engagement was a pivotal moment in that it confirmed the effectiveness of our collective engagement platform and significantly raised our profile. Other engagement activity included work with Shire, Centrica, Reckitt Benckiser and Imperial Brands: all examples of challenging but ultimately constructive discussions. Further details of these engagements as well as our Stewardship 360 program are discussed in more detail later in this review.

Board of Directors

I would like to thank Nick Moakes, Chief Investment Officer of the Wellcome Trust, who is retiring from the Board and will not be standing for re-election at our AGM, for his invaluable contribution to the creation and success of the Forum.

Outlook and opportunities

2018 has been a successful year for the Forum but there is still much to be done. While the investment industry is investing in its ESG and responsible investment initiatives, the resources are still thinly spread over many thousands of investment positions, and often the ESG research is not fully integrated with the fundamental research process. Ultimately, more needs to be done to help end clients properly value their manager's stewardship activities and to help managers to better demonstrate the value-added from these activities.

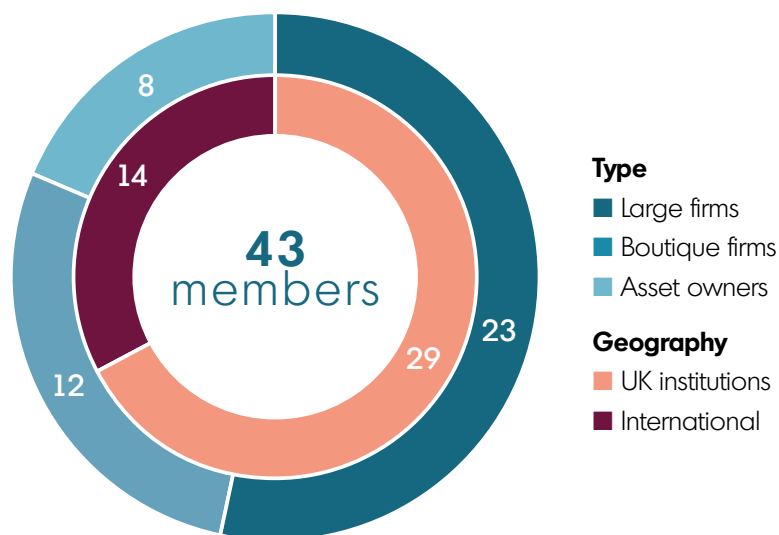
Companies have made great strides in the quality of their shareholder engagement programmes, but still relatively few are able to effectively demonstrate the role and contribution of their board. In particular, there is more to be done to better communicate how companies view the strategic landscape that they are operating in and how they are allocating shareholder capital to enhance long-term value. At the same time, there is increased focus on looking after the interests of all stakeholders, especially customers and employees.

Three members of the Forum's Board sat on the Advisory Group for Sir John Kingman's review of the FRC. The Forum is encouraged by the recommendations as to "how to build a better house" and increase the focus on the users rather than the producers of company reports. Giving the new body more statutory powers and a more proactive role in "live" situations will be of benefit to investors.

The Forum will continue to seek out opportunities to further improve the health of company and shareholder relationships by promoting best practice and providing an independent and thoughtful sounding board for our Members and boards of UK companies.

Forum Snapshot

MEMBERSHIP




~£16.9trn
in Global
AUM


~£707bn
invested in
UK Equities

Represents
approximately
30%
of the
FTSE All-Share
market cap

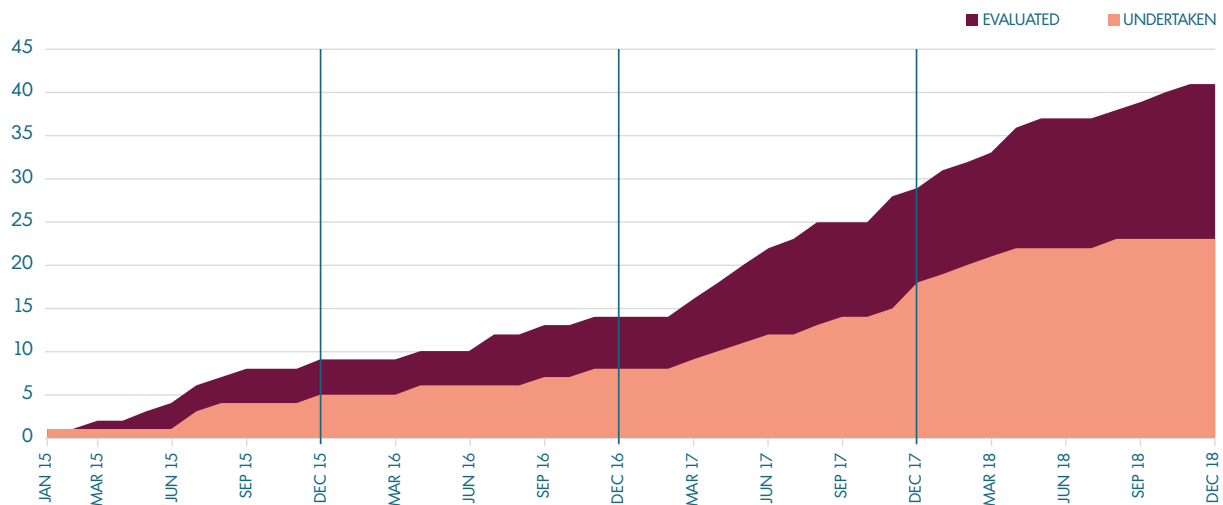
ENGAGEMENTS 2018



2018 COLLECTIVE ENGAGEMENT DASHBOARD

	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership and Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting and Communication
Centrica	✓	✓	✓			✓		✓
Imperial Brands	✓		✓			✓	✓	✓
Reckitt Benckiser	✓	✓	✓	✓				✓
Shire		✓	✓	✓				✓
Unilever	✓			✓	✓			✓
Victrix				✓				

COLLECTIVE ENGAGEMENT ACTIVITY SINCE INCEPTION



ENGAGEMENT PARTICIPATION IN 2018

In each full engagement

RANGE OF
PARTICIPANTS

6-20

MARKET CAP OF
COMPANY REPRESENTED

7%-22%

34

investors have been
involved including
2 non-members

100

bilateral
conversations
took place

Executive Director Review



Andy Griffiths
Executive Director
30 January, 2019

Our purpose is to put stewardship at the heart of investment decision making. In this, our third review of activities, I am pleased to report on a number of tangible examples of our contribution, through both collective engagement and Stewardship 360 projects.

When we established the Forum in 2014, a key element of our initial work was to create the Collective Engagement Framework to underpin the proposed new approach to collective engagement. The framework has provided a safe and secure platform which has given significant comfort to institutional investors.

About the Investor Forum

2018 was our fourth full year of operation. During the year we welcomed a further nine Members bringing the total to 43, including eight asset owners. We also increased the size of the team, attracting two additional experienced executives to work with the Forum on a part-time basis.

Our team of professionals and our strong network represent a flexible resource which can be utilised by investors to increase engagement effectiveness. We completed six comprehensive engagements during the year, as well as a number of specialised investigations to support engagement work by Members under our Stewardship 360 programme.

2018 was the final year of the initial three-year financial commitment from our 20 founding Members. In that time, the Forum has established itself as an independent, not-for-profit entity which we believe delivers an important impact, given its modest resources. We have more than doubled our membership from the founding group, and fund our activities entirely from membership subscriptions of a little over £900,000.

What characterises good engagement

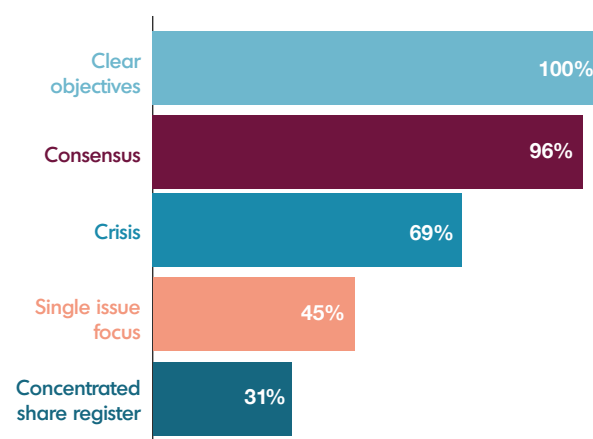
We continue to search for the most effective way to measure the benefits of our work and in that context, we surveyed our Members² in 2018 to seek insights to further enhance the effectiveness of collective engagement.

When asked to rank the critical success factors for collective engagement, investors are clear that two factors stand out:

- ◆ the **clarity of engagement objectives**; and
- ◆ the **level of agreement between shareholders on the need for change**.

These factors were identified as being far more important than the proximity of a crisis or the focus on a single issue.

Critical success factors for collective engagement

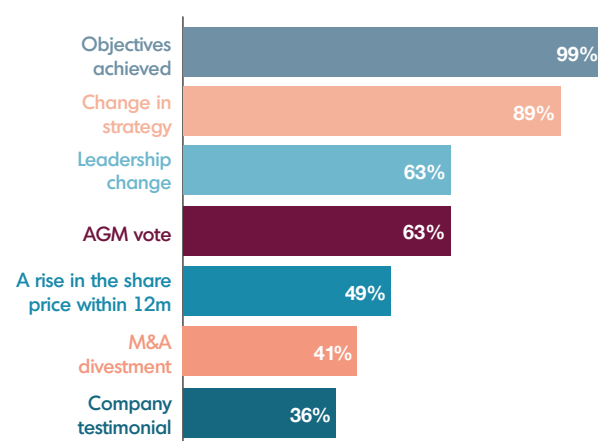


The survey results accord with our experience, although we have also found that it takes persistence, patience and facilitation to create effective engagement objectives. Collective engagement doesn't happen without a concerted effort.

In seeking to evaluate the success of collective engagement, again two factors stand out:

- ◆ **achievement of objectives;** and
- ◆ **evidence of a change in strategy, or some convincing action by the company.**

Evaluating collective engagement success



There is a clear distinction between these factors and issues such as share price improvement, M&A or company acknowledgement.

While clear objectives are a pre-requisite for collective engagement, it is also the case that the nature of the objectives can vary enormously.

Lessons learned from collective engagement

A number of the engagements have been lengthy, with some involving more than one phase as investor views evolved. In these cases, a central resource for collective engagement was often important to create a common thread. Persistence, and a network of strong relationships with investors, companies and expert advisers played an important role in the Forum's ability to encourage change.

The key underlying drivers of the need for collective engagement continue to centre around capital and resource allocation, strategic direction, succession, operational performance and corporate actions. As we review our activity in 2018 we would highlight:

- ◆ **Succession and leadership were again issues** – whereas in 2017 the focus was more about the succession process, in 2018 the emphasis moved to leadership and working with existing chairs to help them understand and respond to shareholder concerns.
- ◆ **Strategic direction** – we assisted with a

number of situations where companies were grappling with very challenging environments, rapidly changing industry dynamics, corporate restructurings or concerns over corporate culture where shareholders perceived either a lack of understanding or a lack of willingness to address their concerns.

- ◆ **Isolated issue or impending crisis?** – shareholders typically assume that everything is satisfactory until a development causes them to question whether the issue at hand could be a symptom of broader underlying problems. In such cases, a specific issue can give rise to wider concerns about Board effectiveness and lead to calls for Directors to demonstrate that they have been fully engaged and effectively discharged their duties.
- ◆ **When collective engagement works best** – it is increasingly clear to us that collective engagement lends itself to complex issues with real strategic impact and to situations where investors are seeking to send a strong message to a company. It is less effective in relation to narrowly framed issues with very specific targets, which may not attract broader support, or where the engagement request is more akin to a last minute “debt recovery” attempt rather than an active strategy to protect or enhance value.

The enclosed Collective Engagement Report provides more detail on the Forum's activities in 2018. As we look forward, we encourage Members and companies to interact more with us in 2019 to further enhance the effectiveness of the engagement platform that has been built.

Reflections on the impact of stewardship activity

- ◆ **We need to talk... Perhaps we need to listen?** No other stakeholder group gets or is able to demand so much access to Boards and Executives as investors – but we should reflect on how well that time is spent. Our experience suggests that the reality of a deteriorating relationship, or a need for change, is often in plain view but frequently obscured by a decline in the effectiveness of the dialogue.

- ◆ **Effectiveness of dialogue.** We held a series of Chair/senior investor breakfasts in summer 2018 to discuss the health of the investor/board dialogue. While there is much to be encouraged about, given increased efforts by companies to communicate broadly, and increased resources in many stewardship teams within investment institutions, there is also evidence of significant frustration on both sides over the quality of the debate.

- ◆ **As an industry we have far too many meetings,** that often cover tangential issues or short-term trends, rather than the factors that drive and support value creation. The tendency to add another meeting to seek clarification is evident; and companies and investors are equally at fault. For example, Imperial Brands cited over 500 investor meetings a year and asked how the Investor Forum could have insights that shareholders had not already informed them of; and yet collective engagement gave the company an increased sense of clarity around shareholder concerns. Similarly, Unilever had over 200 meetings in relation to its simplification, and yet ultimately withdrew its proposal.

- ◆ **Comply or Explain** – Companies are beginning to assert that “comply or explain” isn’t working any more. Likewise, investors are frustrated that remuneration discussions are crowding out more strategic discussions.

Investors still prize this pragmatic approach, because no two companies are alike. However, our experience is that, where the company’s explanation isn’t convincing there is a tendency for the company to broadcast views and for the investors to simply reiterate their concerns or exit the stock.

Perhaps it would be wise to consider a modified approach to the model – **“Comply or explain. Convince or comply.”** – and for companies to accept that compliance with the UK Corporate Governance Code is a good outcome if it isn’t possible to convince shareholders of the argument, and not view such a result as a defeat.

- ◆ **Non-financial information moving centre stage.** As stewardship and sustainability issues increasingly move to centre stage, the approach of investors and the demands on companies are changing. In seeking to address the competing, and in some cases overwhelming, requests for data, the leadership position taken by individual companies has

the potential to cut through the noise and differentiate the company. Such an approach would help to ensure that investors are better placed to allocate capital towards investments that can deliver sustainable long-term value, in a manner which is consistent with the commitments made in their client mandates.

The evolving landscape

As we look to 2019, we are encouraged by the continued support of the investment community. We note that Members would like to see the Forum expand its influence and activity in all three of its areas of activity – collective engagement, Stewardship & Strategy Forums and S-360 projects, although it is clear that the focus should remain on collective engagement.

2019 will see a new Corporate Governance Code come into effect and consultation on a revised Stewardship Code. The Kingman proposals for reform of the FRC will likely have a profound effect on the stewardship agenda as consideration is given to creating a much stronger regulatory force to ensure accountability. In that context we believe the pressure to further demonstrate excellence in stewardship activities and the effectiveness of collective engagement will intensify.

Conclusion

The stewardship agenda is becoming ever more important for investors and society more broadly. It may not always be easy to integrate ESG perspectives when assessing the value of a company, but we believe such an integrated approach is crucial to identify, create and sustain value over the long term.

The record demonstrates that the Investor Forum can make a significant contribution to bridging gaps in the dialogue between companies and investors. I am very thankful to the team, our Legal Panel and a wide range of industry experts who have provided pro-bono support during 2018.

There remains much to be done to align interests through the investment chain. For its part, the Investor Forum will continue to work with our Members to provide **tangible evidence of the value of stewardship** and the impact that collective engagement can have to protect and enhance value. The Forum is increasingly seen as a valuable resource and a centre of excellence for stewardship best practice. We look forward to building on that platform in 2019.

Purpose, Objectives and Key Activities

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.

Activities

Company Specific Collective Engagements

(Read more on pages 18-26)

- ◆ Consult with Members to understand their concerns, identify key issues and develop constructive solutions;
- ◆ Operate the Collective Engagement Framework to create a safe and secure environment in which to facilitate collective engagement;
- ◆ Engage with company boards to amplify and reinforce the messages from their shareholders;
- ◆ Act as a trusted facilitator for Members.

Stewardship & Strategy Forum

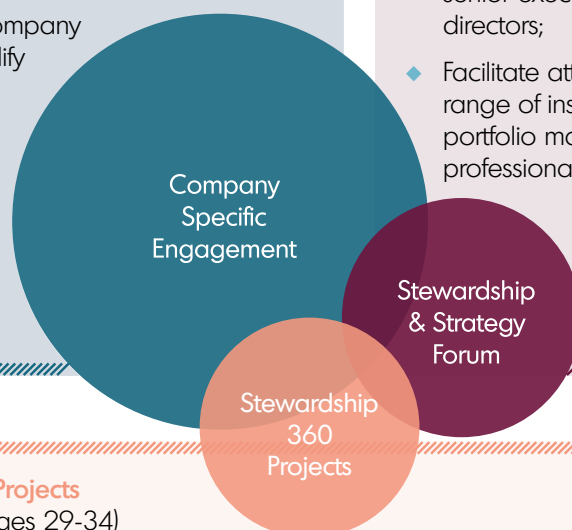
(Read more on pages 27-28)

- ◆ Consult with participants to develop an agenda which addresses key concerns;
- ◆ Advocate a structure which enables or maximises the potential for interactive discussion;
- ◆ Encourage company participation from senior executives and non-executive directors;
- ◆ Facilitate attendance by investors from a range of institutions, involving both senior portfolio managers and governance professionals.

Stewardship 360 Projects

(Read more on pages 29-34)

- ◆ Investigate issues that may arise in the course of a company specific engagement which have broader relevance (for example: the working practices project);
- ◆ Host events that help to position stewardship at the heart of investment decision-making (for example: Engagement Dialogue – Chair & Investor round tables);
- ◆ Organise workshops and meetings to share best practice and develop investor understanding of important issues (for example: the ADR project);
- ◆ Identify relevant experts that can inform investors and help enhance discussion of key issues with companies;
- ◆ Focus on projects that support long term investment approaches.



Background to the Investor Forum

Following the financial crisis, the Secretary of State for Business, Innovation and Skills commissioned the Kay Review of UK equity markets and long-term decision making.

One of the recommendations of the final report, published in July 2012, was that “an investors forum should be established to facilitate collective engagement by investors in UK companies”.

A Collective Engagement Working Group was formed in 2013 to identify how institutional investors could work collectively within their

engagement with UK listed companies to improve sustainable, long-term company performance and overall returns to savers. The Group concluded that the Investor Forum should be established.

In July 2014, with the support of the Investment Association, the Investor Forum was formed as a Community Interest Company, and Simon Fraser and Andy Griffiths were appointed as Chairman and Executive Director respectively.

Key priorities

Year	Objective	Focus
2014	SCOPE IT	Set out the purpose and objectives
2015	PROVE IT	Prove the concept through practical experience
2016	BUILD IT	Clarify the value proposition, securing funding
2017	SCALE IT	Create a sustainable independent business model
2018	EMBED IT	Gain recognition from investors and companies as an integral part of investor engagement with UK companies
2019	SUSTAIN IT	Deliver more collective engagements and S-360 projects to support and advance the stewardship activities of our Members

Stewardship Landscape

Notwithstanding 26 years of Corporate Governance reviews, and the consultations which dominated 2018, as we look forward to 2019 the one thing we know is that the landscape will not look the same in another year's time.

It was the inquiry into the demise of Carillion – unusually, a joint inquiry by two parliamentary Select Committees, those covering the Department of Work & Pensions and the Department of Business, Energy & Industrial Strategy – that meant stewardship came under political challenge and attention throughout 2018. It is also because of that inquiry, and the questions raised about the effectiveness of the audit profession, that Sir John Kingman, former Treasury official and now Chair of Legal & General Group plc, was invited by the government to review the Financial Reporting Council and propose ways forward for the organisation.

Carillion is just the latest of the corporate scandals that have driven the development of governance and stewardship in the UK and globally. The original Cadbury Committee was formed in May 1991 following the Caparo and Polly Peck crises. By the time the Committee reported, it also had to consider the lessons of the Mirror Group scandal and the spectacular collapse of BCCI, the Bank of Credit and Commerce International. And then of course the financial crisis of 2008-9 exposed widespread governance failings across an entire industry.

To this sorry list in 2018 we added Carillion – a moderate-sized outsourcing business which failed when its poor profitability finally caught up with it. Carillion's prominence in the minds of politicians was largely driven by it providing services to the public sector and by the scale of the pension deficit it left behind. The government decided not to give support to the business at a time when the main opposition was talking openly about nationalising such activities. The political attention was intense.

Inevitably, all parties came in for a share of the blame from Parliament:

- ◆ the directors failed to spot the impending challenges to the business, not least the simple fact of rising minimum wage payments on fixed price deals;
- ◆ the auditors failed to press sufficiently for clear disclosure around the increasing use of supply chain financing in the business;
- ◆ the shareholders either failed to identify the issue, spent too much time talking about the wrong things, or sold their holdings;
- ◆ the pension fund trustees and The Pensions Regulator had not insisted strongly enough on the deficit being addressed quickly enough;
- ◆ the government procurement team, having identified a concern, failed to provide the necessary staffing.
- ◆ lastly, questions were raised about the FRC's oversight of the auditors and the board.

The Select Committees identified gaps in the FRC's roles and responsibilities, none more so than the long-recognised issue of it only being able to hold to account directors who are professional accountants. With the publication of the Kingman Review recommendations in December, the role and activities of the FRC's likely successor organisation will be a key question for 2019. With 83 recommendations to consider, there will almost certainly be a significant impact on the stewardship landscape over the next decade. Important parallels can be drawn by considering the evolution of the FSA into today's FCA.

In the meantime, the FRC was as active as ever in 2018 – if not more so. It completed its revision of the Corporate Governance Code to make it “shorter and sharper” in July 2018, taking effect from January 2019. Towards the end of the year, the FRC turned its attention to the Stewardship Code, again seemingly with the intent of shortening and sharpening the document. A consultation is pencilled in for early 2019 to coincide with the advent of the second EU Shareholder Rights Directive and its threshold stewardship requirements.

The landscape will continue to evolve, and the impact on the stewardship debate is far from certain.

The Importance of Objectives

The Investor Forum seeks to differentiate itself through its ability to work with investors to build strategies to engage with companies on complex topics. Successful collective engagement requires the establishment of clear objectives, and Members have told us that this is how they evaluate the effectiveness of stewardship activity.

Why are objectives important?

Objectives create a focal point for engagement and encourage participation. They:

- ◆ establish the need to add a collective effort to institutions' individual engagement efforts;
- ◆ determine whether the Forum's expertise and structure is best suited to take steps to fulfil these aims;
- ◆ provide a common agenda which enables competing investors to work collectively;
- ◆ provide a structure which encourages contributions from investors of every style and type; and
- ◆ encourage the efficient deployment of specialist resources to investigate obstacles and solutions.

How do we establish and evaluate objectives?

Forming clear objectives for collective engagement is as much an art as science.

The key considerations that drive the process are:

- ◆ How pro-active or reactive is the engagement?
- ◆ What time constraints or other practical restrictions exist?
- ◆ How narrow or wide are the core issues?
- ◆ How broad is investor agreement on the issues, or how polarised?
- ◆ What is the history of individual engagement with the company?

In practice, developing objectives is tailored to each engagement circumstance, but typically involves three stages, as set out below.

1. Objective setting and building a critical mass

We have found that rigid and narrow objectives are not helpful in complex corporate situations and the fast-moving environments that may emerge in the course of a collective engagement. The objectives therefore serve as a directional guide, and not a pre-determined path to follow. This allows an engagement to evolve in a bespoke manner, adapting to developments and accounting for the actions taken by a company in response to the concerns raised by investors.

Initial objectives are typically set at a high level – to “re-establish trust”, “align expectations”, “create confidence”, “encourage the company to take steps”, or perhaps, more prosaically, to “ensure investor views are taken into account.” The bar is raised for the Board, so that Directors understand the need to convince investors (and often other stakeholders) of the desirability and plausibility of their framework for addressing an issue.

The objectives begin with a clear annunciation of the problem, not the solution. Boards retain the responsibility to develop and put forward their proposed solutions, and investors retain their independence of judgement on specific outcomes.

Building critical mass is a vital element of the Forum's role in collective engagements. The Forum works with Members to understand their concerns on engagements proposed. It may take time for a critical mass to develop, or as we have also seen, it can take shape in a matter of days.

Members have told us that there is significant effort required on their part to build internal support for participation in complex engagements. Companies have told us that we play an important role in providing a clear steer on investor views on strategic issues which need further attention.

The implementation plan (“next steps”)

In order to develop engagement strategies, the Forum works with investors to set out the steps to be taken in pursuit of achieving the objectives. These clarify, and sharpen, the requests to the company to address specific issues of concern to investors. The result is a much more granular “ask” of the company.

The message that is to be delivered to the company is refined and participants approve the tone and approach of the letter that is sent, typically, to the Chairman. This focuses attention on core priorities, and allows participants to reinforce, individually and separately, the collective message. In all cases:

- ◆ responsibility for the construction, effective delivery, and impact of the message lies with the Forum;
- ◆ ownership of the solution lies with the company.

2. Engaging with the company

The outcome of engagements depends, of course, on the receptiveness of the company to address the issues raised by the Forum.

Rebuilding investor confidence and, ultimately, regaining trust, is often an extended process. All too often companies believe that it is mainly a communications issue. In reality, investors understand that the journey takes time and involves multiple steps, and are therefore looking to companies to provide comprehensive and sustainable solutions.

Whether or not companies perceive an engagement to be constructive or aggressive, additive to, or contrary to their own understanding, the objective is to create a shared conviction that action is required. The company response, and the willingness of the Board to be open to collective engagement input, typically shapes the success of the engagement.

It is important to be clear that companies own the solution that they propose. Investors appoint directors to act as their agents and have rarely run companies. Therefore, the Forum’s engagement approach does not seek to

“micromanage” companies or propose specific actions. In contrast to the approach taken in many activist campaigns, the Forum seeks to highlight to the Board the need for it to recognise an issue and respond effectively.

3. Evaluating the impact of an engagement

Measurement of success is through Member reflection and feedback at the end of the process. The Forum reviews the engagement objectives with participants when we close an engagement and we publish case studies and share reflections each year in our Annual Review. We also survey Members and, from time to time, run seminars to exchange thoughts and discuss lessons learned in order to improve the effectiveness of future engagements.

In the vast majority of engagements that have been initiated, the Forum has been able to facilitate constructive dialogue with the company. Sometimes the dialogue is sufficient in itself for the investors to deem that they are in a better place as a result. In over half of engagement cases, the dialogue has resulted in companies initiating or accelerating tangible actions that seek to address the issues of concern.

Occasionally, the solutions that companies propose can be observed to have a measurable, positive impact on the value of the company. The benefits of removing market uncertainty through improved communication, empowering difficult but necessary decisions, or catalysing positive Board change can, with hindsight, be seen in the price, multiple, and shareholder register of the company.

Conclusion

The Forum’s approach is always to learn by doing and to share lessons learned broadly. As Stewardship activity ramps up in response to investor pressure and societal demands, it will be important to prioritise effectively. Clear objectives provide an important compass by which to navigate.

What companies can expect from the Investor Forum:

- ◆ **NO SHAREHOLDER SUPPORT, NO ENGAGEMENT:** shareholders escalate their concerns to the Forum and we only proceed with a critical mass of support
- ◆ **FOCUSED ON VALUE CREATION NOT BOX TICKING:** tests apply before proceeding – engagement is grounded in economic rationale, a long-term focus and constructive solutions
- ◆ **COMPREHENSIVE ENGAGEMENT STRATEGY AND MANDATE:** we will have spoken with the portfolio managers, sector analysts and governance professionals to understand their views
- ◆ **AGREED WAY FORWARD:** the views we convey are agreed by all engagement participants
- ◆ **ONGOING INTERACTION:** up-to-date views from participants. Participants are aware if the company is unwilling to engage positively with the Forum
- ◆ **NO INTENTION TO SUPERSEDE DIRECT ENGAGEMENT:** we encourage participants to continue their individual interactions with the company
- ◆ **DISCRETION:** dialogue with the company is confidential to participants, although public escalation strategies may be considered when appropriate
- ◆ **TRANSPARENCY:** after closing, we report on the engagement at a high level in order to demonstrate our stewardship activity

What we expect from companies:

- ◆ **APPROACH THE ENGAGEMENT WITH AN OPEN MIND:** shareholders have seen value in participating in collective engagement under the auspices of the Forum, and we would expect a company to respect the role of the Forum in amplifying shareholder views in pursuit of a constructive dialogue
- ◆ **NO INSIDE INFORMATION:** the Forum actively seeks to avoid obtaining inside information from companies without our prior consent
- ◆ **BOARD LEVEL PARTICIPATION:** the approach is constructive, with the aim of helping the company to understand the range of participants' views and any obstacles to realising the company's long-term potential
- ◆ **A COMPREHENSIVE PLAN TO BUILD CONFIDENCE:** we seek outcomes that enhance the value of the franchise for the benefit of all stakeholders



Review of Activities 2018

Collective Engagement Report: 2018



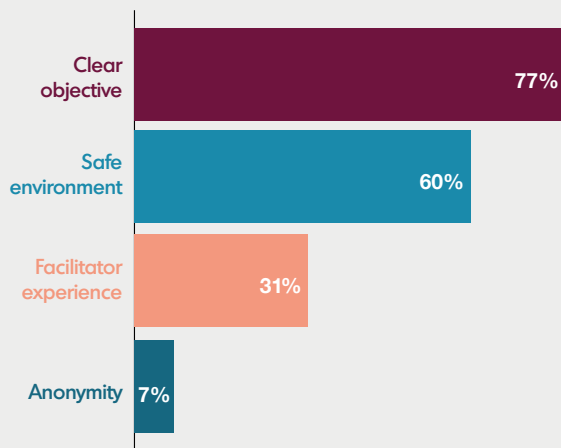
Investor Forum Membership Survey 2018

In our 2018 Member survey, we asked what the most important factors are when considering participation in a collective engagement.

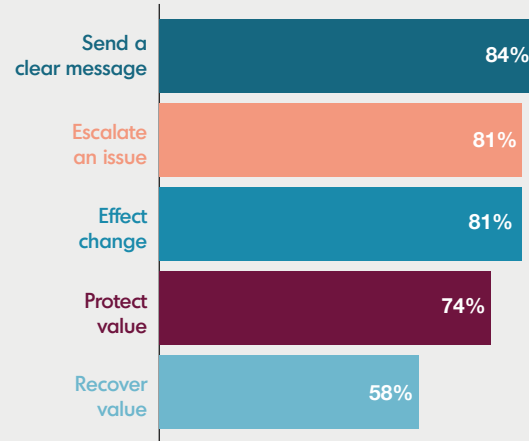
- ◆ Clear Objectives were by far the most important factor, with 77% of Members citing them as very important.
- ◆ A safe environment was the second most important factor with 60% of Members believing it to be very important.
- ◆ Interestingly few Members (7%) felt that anonymity was important.

The Forum's engagement process is designed to be objective-led, and using the Collective Engagement Framework to govern actions during engagements.

Collective Engagement Priorities



When Members use the Investor Forum



The survey also provided important insights into why Members use the Forum. It is becoming increasingly clear that the focus for collective engagement centres on sending clear messages, escalating issues and seeking to effect change.

Member engagement begins with a series of bilateral conversations with investors to identify the range of issues. We then develop clear messages which form the basis of the engagement with the company to better protect or recover value.

Importantly, this reflects a recognition by investors that they can create an engagement strategy and subsequently effect change if they can hold companies to account. But ultimately, it will be the decisions and actions of the company that recover or create value.

As the track record continues to build, the Forum is becoming recognised as a centre of excellence with both the capacity and capability to investigate complex issues which arise both in, and from, engagements.

Engagement activity 2018

Facilitating collective engagement is the primary objective of the Forum. The Collective Engagement Framework and the Forum's approach are now recognised by leading investors as a valuable tool to escalate and resolve issues.

Over four years, investors have asked the Forum to investigate 42 company situations for collective engagement. In many cases, institutions will already have devoted time and resource engaging directly with companies, and only approached the Forum when their individual efforts had not achieved the desired outcomes.

In 2018, Investor Forum Members identified 12 companies as candidates for collective engagement³, five of which proceeded to full engagements. The Forum completed six engagements in 2018, four of these were initiated in the year and two were initiated in 2017. One case was on-going at year end.

Of the seven cases which were proposed in 2018, but did not achieve critical mass to proceed:

- ◆ five were small cap companies where the initiating Member had very targeted objectives which did not attract wider support;
- ◆ one involved a corporate transaction where investors engaged individually; one member raised their concerns with the Takeover Panel drawing on insights from the Investor Forum (see box on Page 26).
- ◆ one resulted in the Forum facilitating a group meeting for 7 Member firms (representing over 20% of the share capital) with the Chair, SID, CEO and CFO to address issues raised by the investors.

The platform is now well established and we believe there is scope for Members to make greater use of this shared resource.

Member participation

During 2018, the Forum:

- ◆ worked with 34 institutional investors, including two non-members; and
- ◆ held 100 detailed bilateral conversations defined as an ongoing dialogue on a single company subject with an institution – with investors to inform these engagements.

Case studies

In the pages that follow we seek to draw out some of the key themes that have emerged from this year's engagements. We have again sought to balance the sometimes competing needs for discretion and transparency. In our view, discretion continues to be a crucial component in taking the time to identify underlying causes behind problems, rebuilding confidence and trust between companies and investors, and identifying long-term solutions.

However, transparency can be a powerful driver of change and improvement. We are committed to report on our activities when sensitivities have reduced so that all stakeholders can draw lessons and improve best practice.

Disclosure also helps demonstrate the seriousness with which our Members take their stewardship responsibilities. Through the creation of The Investor Forum, the investment community has invested in an escalation mechanism to engage, including in the most complex situations. The intensive nature of these collective engagements represents a market-led solution to enhance the effectiveness of stewardship activities. We believe it is a unique and constructive additional stewardship tool.

In the following pages, we have included details of six collective engagements that are now closed.

2018 Annual Review Case Studies

	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting & Communication
Centrica	✓	✓	✓			✓		✓
Imperial Brands	✓		✓			✓	✓	✓
Reckitt Benckiser	✓	✓	✓	✓				✓
Shire		✓	✓	✓				✓
Unilever	✓			✓	✓			✓
Victrex				✓				

³ For our statistical purposes, we have counted Shire as two distinct engagements, given the time-frame and the evolution in objectives and participants

COMPANY: Centrica plc	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting & Communication
	✓	✓	✓			✓		✓
Engagement period: Dec 17 – Jun 18 Size: FTSE 100 Number of participants: 8 % of company: -13%								

Background

The Forum engaged with the company between December 2017 and April 2018.

The Board had overseen a number of challenges, but Participants expressed the view that collective engagement could help to highlight the areas of concern. There was a particular focus on customer attrition, capital allocation and the company's dividend policy.

Engagement Objectives

The objectives of the Forum's engagement were to encourage the company to clarify its strategic direction, increase confidence in capital allocation decision-making and to better understand the company's potential for future growth.

The Participants were keen to encourage the Board to demonstrate the effectiveness of its oversight and to build shareholder confidence that there was an appropriate balance between innovation and growth initiatives relative to "fixing the core business".

Outcomes

We met with the company on a number of occasions in the first quarter of 2018. The Chair met with a number of leading investors, and the company made a significant effort to address many of the issues raised when it announced its 2017 results in February 2018, identifying 10 key issues of importance. Centrica also hosted a governance event in April 2018 which included contributions from both Executive and Non-Executive Directors.

We continued to monitor developments with Participants during the second quarter and closed the engagement in June 2018.

In our view the engagement gave the Participants an important opportunity to reinforce their concerns, and Centrica was open to discuss the issues raised through a series of interactions.

Reflections

- ◆ Although investor concern had been increasing, it was only following share price weakness in late 2017 that the appetite for collective engagement was formed.
- ◆ Investors participated in the engagement to ensure that the Board received consolidated feedback on the strength of their concern on the key issues outlined above.
- ◆ Throughout this period the shareholder register remained, largely, unchanged and it is notable that many of the largest shareholders have continued to support the Company.

COMPANY: Imperial Brands plc	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting & Communication
	✓		✓			✓	✓	✓
Engagement period: Feb 18 – Sept 18 Size: FTSE 100 Number of participants: 7-14 % of company: ~20%								

Background

Participants had concerns about the long-term organic growth potential of the company, positioning with regard to next generation products and the company's ability to maintain the stated dividend policy.

We identified a wide range of views – from a desire for continued patience through to calls for a comprehensive strategic review to consider all options to recover shareholder value – and worked with participants to consolidate these views.

We initially worked with 14 investors, including members and non-members, to formulate an engagement strategy. Seven of these investors supported an engagement with the company, with two other shareholders joining as the engagement progressed.

Engagement Objectives

Following a significant fall in the share price in the second half of 2017, the engagement sought to reinforce at Board level the participants' appetite for action to rebuild confidence in the company's strategic direction and operational execution. In addition to challenges with the changing product landscape, the engagement highlighted concerns about the brand portfolio and the ability to deliver the expected financial returns. There was also a focus on the potential to enhance the group's divisional disclosure.

Outcomes

The Chairman engaged rapidly and very constructively with the Forum, and many of the issues highlighted were addressed in the interim results announcement in May 2018. We maintained a dialogue with the Chairman through the year and continued to monitor developments ahead of the full year results.

During 2018, Imperial Brands was very active, announcing a disposal programme, enhancing its communications on its approach to Next Generation Products and implementing changes to segmental reporting at the full year results. All of these initiatives were welcomed by shareholders. While frustrations remain, the engagement was closed in September given action taken to address many of the key concerns.

Reflections

- ◆ The feedback illustrated that investors had identified a complex series of challenges faced by the company, and that a wide range of participant perspectives needed to be considered in the collective engagement.
- ◆ Division within a shareholder base often creates a challenge for a company, but disparate views need to be addressed and overcome.
- ◆ In situations such as this, multiple steps are required to reconcile these conflicts and rebuild market confidence. Investors value engagement by the Board, as well as the executive, for example by way of a Stewardship & Strategy Forum.

COMPANY: Reckitt Benckiser plc	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting & Communication
	✓	✓	✓	✓				✓
Engagement period: Nov 17 – Oct 18 Size: FTSE 100 Number of participants: 10 % of company: ~7%								

Background

Reckitt Benckiser has a well-defined culture and a long-term track record of outstanding operational delivery, which has generated strong returns for shareholders. However, there has been a debate over several years with regard to remuneration policies, business practices and Board effectiveness. This engagement was proposed following product safety and marketing issues which were felt to have the potential to negatively impact the company's reputation and franchise value.

The company announced a series of changes to refresh its Board in September 2017. While there was a long period between the announcement of the new Chairman and his appointment at the AGM in May 2018, the Chair-elect began to meet shareholders during that period.

Engagement Objectives

The objective was to encourage the incoming Chair to review the effectiveness of the Board and reassure investors that it provided appropriate challenge and oversight to management. Given investor concerns that the company's strong delivery-focused culture might be exposing shareholders to unnecessary risk, we also sought to highlight the importance of focusing on sustainable business practices in generating long-term growth.

Outcomes

The company were very responsive and we had a series of meetings with investor relations, the company secretary and the Chair-elect. This culminated in the company hosting a Board event, based on the Stewardship & Strategy Forum format, in May 2018 shortly after the new Chair took over.

This was the first time that the company had organised an event specifically for the Board to meet with investors and it was well received.

The event was structured to introduce the newly refreshed Board, to address the issues raised in our letter, and to provide investors with an opportunity to understand the Board's thinking in relation to recent changes to the strategy. Various members of the Board, the Chairs of the committees and members of the executive team attended the session, while investors were represented by individuals from across the investment disciplines, including governance specialists, portfolio managers and sector analysts.

Reflections

- ◆ Dialogue with a company ahead of a round of investor meetings was helpful in giving context for individual discussions and increasing awareness of, and sensitivity to issues of concern.
- ◆ Chair succession can create a vacuum when there is a long period between announcement and stepping in to the role, but meeting as Chair-elect can be a positive way to understand investor views and prepare the forward agenda during this period.
- ◆ Board events work best where the agenda is co-created with investors, to ensure that subjects are appropriately prioritised.

COMPANY: Shire plc	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting & Communication
		✓	✓	✓				✓

Engagement period: Jul 17 – Sep 18 Size: FTSE 100 Number of participants: 11-19 % of company: 17%

Background

Investors viewed Shire as a growth company with a positive long-term future. Members were frustrated, however, with discussions on remuneration leading up to the 2016 AGM and were concerned about the scrutiny of capital allocation, following the transformative acquisition of Baxalta.

The company experienced a great degree of change during engagement – announcing a strategic review of its neuroscience business, the unexpected resignation of the Finance Director, and ultimately an agreed takeover by Takeda.

Engagement Objectives

In the first phase of the engagement the objectives were to evaluate the effectiveness of the Board in providing scrutiny and independent challenge, to clarify the capital allocation and risk framework, and enhance understanding of the Board's strategy for management development and succession.

The second phase of the engagement reinforced the original objectives, highlighting investor unease over the widening gap between the perceived intrinsic value of the franchise and the market price.

Outcomes

The Chair and SID engaged very constructively when approached by the Forum in July 2017, and agreed to host a "Board of Directors Overview Meeting" in September. The company's appetite for frank discussion and willingness to listen were well received by investors. Board members welcomed the chance to interact directly with their major shareholders in an efficient and effective format.

While shareholders were pleased with the company's responsiveness, concerns remained. Given the important strategic decisions which were pending, the lack of confidence in the capital

allocation framework was felt keenly by investors. Additionally, the resignation of the Finance Director raised questions about the efficacy of the strategic review.

In March 2018 the Forum communicated an increase in investor frustration in resolving the original objectives, a lack of confidence in the strategic review process, and concerns about the reduction in medium term revenue guidance.

Members were considering next steps in the engagement when Takeda announced that it was planning an approach to Shire regarding an offer for the company. The possible bid illustrated a classic competitive reaction to a depressed share price resulting from the lack of investor confidence.

With important strategic issues still outstanding and the possibility of other bids emerging, the engagement entered a second phase. 15 investors agreed to support a letter to the company given concerns over the best route to achieve value for shareholders.

In light of the extended timetable relating to the offer from Takeda, participants decided to send a further letter to the company in late June to express the importance they attached to delivering an effective operational performance by the stand-alone business during this period. The engagement was closed in September 2018.

COMPANY:**Shire plc – continued****Reflections**

- ◆ This engagement was a clear example of remuneration concerns representing a symptom, rather than the cause, of investor frustration with a company. It took time and persistence to demonstrate the substantive nature of the underlying investor concerns.
- ◆ Engagement with companies which are not in visible crisis requires coordinated input to ensure that the company takes on board the seriousness with which investors regard the strategic issues.
- ◆ The Stewardship & Strategy Forum was an important mechanism to help sensitise the Board's understanding of investor concerns, through face-to-face conversations between investors and Non-Executive Directors.
- ◆ When large gaps emerge between perceived intrinsic value and market valuation, more forceful intervention at an earlier stage might help to recover value in the business. In this instance, it was noticeable that a number of investors joined the second phase of engagement as the company's operating performance began to deteriorate relative to expectations.
- ◆ Ultimately if shareholders express significant concerns over long-term value, it is important that the Board can propose a convincing response.

COMPANY:**Victrex plc**

Governance (by the Board)					Execution (by the Management team)		
Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting & Communication
			✓				

Engagement period: Jan 18 – Feb 18 Size: FTSE 250 Number of participants: 13 % of company: 22%

Background

One of Victrex's Directors also served as Audit Committee Chair of Carillion plc. As the Carillion insolvency was unfolding, investors were keen that its Directors had sufficient time to focus on that situation. Investors were also sensitive to the reputational impact on companies where Carillion Directors also served.

Engagement Objectives

Investors contacted the Forum as they felt it was appropriate to send a clear message, individually and collectively, to the Chairman of Victrex about concerns over the re-election of a Director at the upcoming General Meeting.

Outcomes

Victrex engaged with, and listened to, its shareholders, and announced prior to its AGM that the Chairman of the Audit Committee had resigned from the Board of Victrex, which they believed to be in the best interests of the Company.

Reflections

- ◆ In addition to the more complex engagement assignments, investors use the Forum's engagement platform and framework as an effective mechanism to move quickly to send a clear collective message, which amplifies the individual expressions of views.

COMPANY: Unilever plc	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational performance	Management Information	Reporting & Communication
	✓			✓	✓			✓

Engagement period: Mar 18 – Oct 18 Size: FTSE 100 Number of participants: 17-23 % of Unilever plc shares: 11%

Background

Unilever has enjoyed strong and consistent support from long-term investors in recent years, particularly during the hostile approach from Kraft. However, when Unilever proposed a corporate simplification in 2018, significant concerns were raised over the decision-making process and the choice of domicile.

Some investors focused on index exclusion and forced selling, while other investors identified shareholder rights, takeover protection, dividend withholding tax and capital gains tax as concerns regarding the proposals. Insights were also sought regarding the Board's decision-making processes.

The burden of proof for the proposal was high, and this was acknowledged by the company, given the requirement for support from 75% of plc shareholders and a majority of those who voted.

Engagement Objectives

The objective was to highlight the scale of investor concern regarding the proposed approach to unification. Shareholders asked the Board to make a more effective case as to why incorporation in the Netherlands was essential to the proposed restructuring.

Ahead of publication of the final circular, the Board was encouraged to articulate clearly the benefits of their actions, to demonstrate a robust decision-making process and to reassure investors with regard to the ongoing effectiveness of the company's structures and processes under Dutch law.

The company was also asked to clarify the tax treatment of future dividend payments to international investors, its position on the possible introduction of a 250 day 'time out' period in Dutch Law and its intentions regarding the voting of any uninstructed ADR proxies.

Outcomes

Unilever engaged comprehensively with the Investor Forum, alongside its extensive direct interaction with shareholders. The dialogue was constructive, and the company sought to clarify a number of the issues raised.

In addition to the collective engagement, a number of institutions took the unusual step of publicly declaring their intention to vote against the proposal. Pressure from media and retail investors was also very intense, and The Investor Forum decided to make public its involvement at the request of Members. The company announced the withdrawal of the simplification proposal on 5th October 2018.

Reflections

- ◆ A frequent challenge for collective engagement is agreeing the objectives and identifying the common ground; in this case, while the specific concerns and aims differed, it was clear that a single factor – the implications of the choice of domicile for simplification – was the driver of investor unease.
- ◆ It took an extended period for many investors to finalise their views, given the complexity of the decision.
- ◆ While the ultimate decision represented a binary choice, there were many complexities to consider in reaching a view. The Forum was able to source external input from corporate lawyers, investment bankers and company executives who had faced similar decisions. The Forum became a centre of accumulated knowledge, and a valuable reference point for Members.

COMPANY:

Unilever plc – continued

- ◆ It is rare for a major corporation to reverse such a significant proposal. In this case it required the combined impact of individual investor dialogue, collective engagement, public announcements by investors, media coverage and retail investor pressure for the proposal to be withdrawn.

Considerations in respect of the Sky acquisition

The bidding battle for Sky plc was a complex and elongated process which began with the Fox bid for Sky in December 2016. A number of Members sought evidence of a robust process by the Sky Independent Committee, particularly with the emergence of competing bids. They also sought guidance on some technical aspects of Takeover Panel processes.

Following the Disney bid for Fox, the Takeover Panel ruled on whether Disney should be forced to launch a mandatory bid for minority shareholders, applying the “Chain Principle” rule. At the request of Members, the Forum:

- ◆ Reviewed some technical aspects of the initial Takeover Panel ruling which concerned whether Disney would be subject to the chain principle;
- ◆ Consulted with members of the Forum’s Legal Panel in order to understand the basis for, and the process by which, the Takeover Panel would make its decision to determine the applicability of the principle and the price at which the offer would be mandated.

Our objective was to help ensure that Members were aware of the process which the Takeover Panel would follow, and of the opportunities to make their case.

Following the ruling that the chain principle applied, investor focus shifted to ensuring that the price reflected a true and fair value. We worked with Members to increase awareness of the Panel’s process and of investors’ rights. One Member requested that the ruling be reconsidered, following detailed discussion with the Forum.

The Hearings Committee reviewed and upheld the Panel’s ruling, and the Takeover Panel Appeal Board confirmed the decision of the Hearings Committee. Ultimately, Comcast and Disney participated in a series of auctions over the weekend of September 22nd to determine the future ownership of Sky, with Comcast winning the auction.

Given the interest that this case generated in the rules and workings of the Takeover Panel, the Forum hosted a Member discussion with the Deputy Director of the Takeover Panel, who offered background and practical advice as to how investors can interact with the Panel. He noted the limited interaction between long-only institutional investors and the Panel Executive, with most discussion taking place with hedge fund and event-driven investors.

Stewardship & Strategy Forums

Investors have a strong desire to engage with company Boards, particularly Non-Executive Directors, to exercise their stewardship responsibilities and enhance their investment returns. There is also a growing recognition that Environmental, Social and Governance (ESG) factors are important components of sustainable value creation, particularly in the medium to longer term.

The Investor Forum has continued to develop the Stewardship & Strategy Forum (SSFs) concept, which brings together companies and investors to discuss the Board's approach to issues of strategy, governance and Board effectiveness.



Ideally an SSF will be led by the company Chairman, along with other NEDs such as key committee Chairs and the Senior Independent Director. It can be valuable for the CEO and or CFO to attend for the first part of a meeting to provide a strategic and operational update.

The most successful events focus on an agenda which is formed through prior discussion with shareholders to better understand the primary areas of interest. The Board will typically lead a discussion on the issues and then engage in a two-way discussion with representatives drawn from both the governance and investment teams from their shareholders.

While many large companies organise some form of Governance or Board event as part of their regular investor dialogue, **our Member Survey revealed a strong sense that there is scope to improve the effectiveness of existing governance days:**

- ◆ 100% of Members who responded to our survey agree, or strongly agree, that SSFs can contribute to an improvement in communication between company Boards and investors.
- ◆ 80% of Members who responded agree, or strongly agree, that FTSE 100 companies should commit to hosting a SSF at least every three years.

Attendance at company organised governance events has historically been quite disappointing for companies, and is often confined to more junior members of the governance teams. Such experiences stand in marked contrast to the interest in, and attendance at, Capital Markets Days organised by the Executive.

Over the last four years we have, with the support of our Members, encouraged a number of companies to host SSF events, and have received very positive feedback from Board members and investors. An SSF can be an integral part of an engagement or a regular part of a company's investor engagement and communication programme.

Group meetings with the Non-Executives can be valuable for investors. These meetings help investors to gain clarity from the Board and increase their confidence that the company can effectively address the challenges it faces. A structured agenda, and a well-prepared company which has listened to the questions that are top of mind for investors, can generate a positive discussion in a time and resource efficient way that enhances its reputation and creates goodwill.

As part of the collective engagement disclosed in this Review, the Forum asked **Shire plc** to host a "Board of Directors Overview" meeting which was hosted by the Chair and five other NEDs in September 2017. Similarly, **Reckitt Benckiser plc** held an "Investor Governance Meeting" in May 2018, hosted by the new Chair shortly after his appointment at the company's 2018 General Meeting, to introduce investors to the SID and Chairs of the board committees. We also encouraged **Centrica plc** to expand the agenda of its Governance event in April 2018 to include a session from the CEO and CFO as well as the planned discussions by the Chair and Committee Chairs.

In addition to those SSFs arising from our engagement work, we spoke informally to a number of companies who were independently planning Governance events to share insights about what investors value most about such meetings.

In 2018 our Members asked us to organise meetings with three companies to discuss a variety of issues, and in each case the company engaged constructively:

- ◆ **Ryanair plc** – Eight Members met with the SID and CFO in Dublin to talk about shareholder enfranchisement, board effectiveness and labour relations.
- ◆ **Inmarsat plc** – Seven Members met with the Chairman, SID, CEO and CFO to talk about capital allocation, board effectiveness and succession planning.
- ◆ **J Sainsbury plc** – As part of the Stewardship Summit, 21 investors heard from the Chairman and Chair of the Corporate Responsibility and Sustainability Committee to understand the Board's oversight of the activities explored in more detail as part of the S-360 project on working practices.

We believe there is significant scope for companies to enhance the efficiency and effectiveness of the communication between Boards and investors, while being sensitive to the capacity of investment teams for additional meetings. We will continue to promote this concept in 2019, not only as part of collective engagements but also as standalone events and we will evaluate investor appetite for the more flexible SSF format, as highlighted above.

Following the success of our pilot Stewardship Summit in December 2018, we plan to host an Investor Forum Stewardship Summit in 2019.

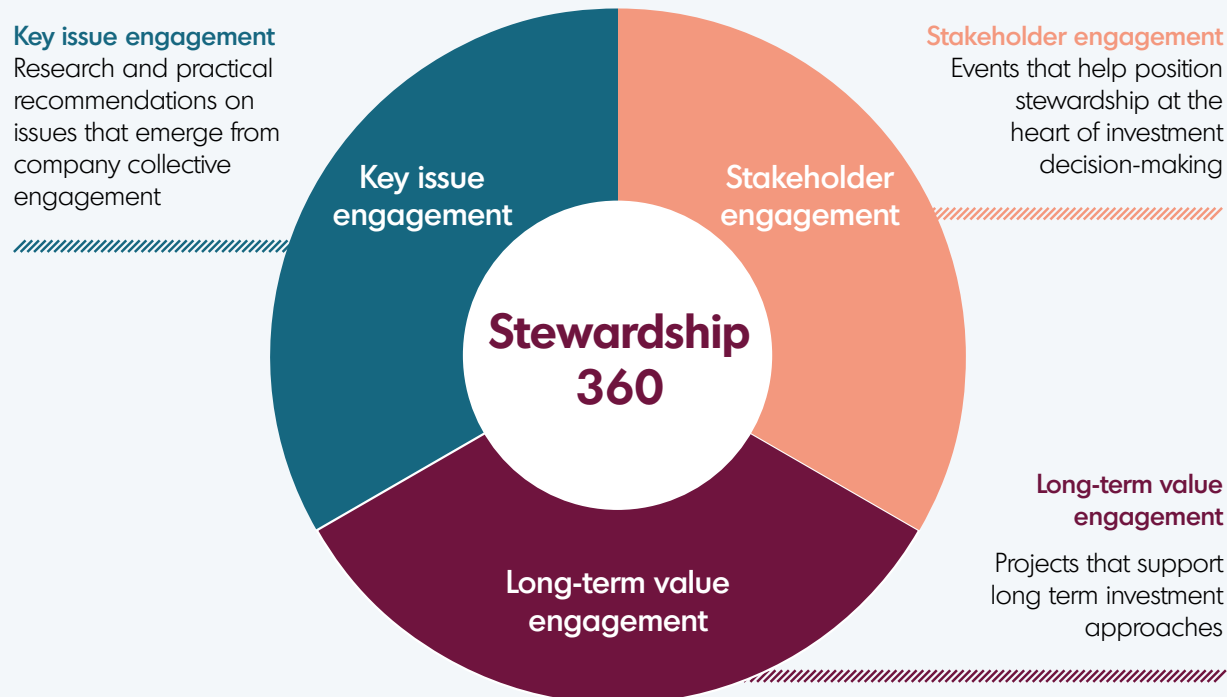


“The Stewardship & Strategy Forum concept developed by the Investor Forum provides a sensible and practically useful framework for companies seeking to maximise the effectiveness of engagement between non-executive board members and investors.”

Mark Stride
Global Head of Investor Relations
Standard Chartered plc

Stewardship 360 (S-360)

The Stewardship 360 (S-360) programme brings investors together in a collective approach to wider issues that impact companies and the environment in which they operate. It develops the insights gained from engagement activities, and seeks to address the systems-wide barriers to stewardship activities.



In 2018 we completed a number of initiatives:

Key issue engagement

- ◆ **Working practices in the Food sector:** A series of expert-led workshops, company meetings with ethical trade managers and Board members, and 'deep dive' research trips (see page 30).
- ◆ **Marine Plastic Pollution:** Working with Flora & Fauna International to consider the investor role in tackling the problem of plastic pollution and expressing support for more ambitious controls (see page 32).
- ◆ **ADR voting practices: solicitation and auto-proxy:** Issue-specific company engagement, after investors highlighted concerns over vote solicitation and the use of auto-proxies (see page 33).

Stakeholder engagement

- ◆ **Stewardship Summit Pilot:** Convening of Members and Chairs for both company specific and broader stewardship debate.

Industry presentations:

- City Week Panel Discussion – Why do investors engage with companies?
- Activism and Governance on Both sides of the Atlantic – Panel Discussion with Skadden & Erskine Chambers.
- Institutional Investors and the Takeover Panel – How does it work? How do investors use it?
- ICGN Global Stewardship Forum – Critical Factors for Successful Collective Engagement.

Long-term value engagement

- ◆ **Chair/Investor Breakfast Series:** Chair & Investor perspectives on the health of the current dialogue.
- ◆ **Barriers to engagement:** How to increase the effectiveness of collective engagement
 - Discussion paper and Member workshop.

S-360: Working Practices in the Food Sector

The Investor Forum works to put stewardship at the heart of the decision making process. Shareholders increasingly need to incorporate the impact of all value drivers when considering their long-term investment thesis – including non-financial factors such as culture, human capital, environmental impact and citizenship. For investors, insights in these areas are becoming a differentiating factor.

In 2017, we focused on the working environments of the distribution centres and the potential for abuse within the textile supply chain in the apparel sector. In 2018, we extended those insights and lessons into our analysis of the food retail sector. These are large consumer facing businesses, and significant employers, directly and indirectly, which have the power to influence complex global supply chains. The risks the sector faces differ – but labour exploitation and creating a productive working environment are systemic challenges.

15 Members participated in the workshop and research trip. Investors agreed that the project gave them a valuable insight into the companies that they would not otherwise have had, whilst companies welcomed the opportunity to discuss these issues and gain insights into the areas of material interest for investors.

The Taylor Review of Modern Working Practices, published in July 2017, states a clear belief that “the tone for fair and decent work is set at the top of an organisation, reflecting the demands of shareholders and consumers and extending out into the workforce and the wider supply chain.” The Board’s attitude towards organisational values and culture, and its perspective on stakeholder, operational and reputational risks are key indicators of the quality of the workplace and exposure to risk areas. As such, we wrote to the Chairmen of the three listed UK supermarkets, and asked them to engage with investors on the issue.

Tesco plc and **J Sainsbury plc** each engaged constructively and provided insights into their supply chains and the way they frame and manage these issues. We learnt important lessons on business practice, and what investors, ESG integration looks like from a company/s perspective.

“At Sainsbury’s, our values underpin everything we do as a business, helping to strengthen our relationships and build trust with our stakeholders. I encouraged our team to open our supply chain to investor scrutiny through the Investor Forum’s project. We believe that the engagement demonstrated our commitment to working in partnership with our stakeholders and our commitment to doing the right things for our customers. We found the dialogue valuable and it further enhanced our understanding of our shareholders’ interests.”

David Tyler, Chairman of J Sainsbury plc

Research trip insights

Sainsbury’s Ethical Trading team worked with us to arrange access to two of their private UK-based fresh produce suppliers, to show investors front-line examples of labour supply challenges.

With a vast majority of the workforce for these businesses coming from Eastern Europe on a seasonal basis, the potential restriction on the free movement of people is expected to result in a shortage of workers for the peak harvest season. As well as migrant labour that moves freely into, and out of, the sector, we wanted to understand the threats of exploitation, both here in the UK and at the high-risk points in the supply chain.

Media scrutiny of living conditions on one site we visited was a catalyst for industry-wide improvement and agreement on best practice guidelines. The group inspected the accommodation, and heard that in a short time, the cost of improving the physical environment had made financial, as well as humanitarian, sense.

The suppliers we visited want their efforts to ‘do the right thing’ with regards to their staff and broader sustainability issues to be recognised more explicitly by the supermarkets. Whilst treating people well creates a positive culture and a productive workforce, they gave examples of other suppliers cutting corners but retaining contracts with key retailers.

Recognition and reward throughout the chain, perhaps through longer-term contractual support, would support increased investment, leading to a more virtuous circle. Issues discussed included:

Working practices:

- ◆ Managing a multi-cultural workforce
- ◆ Temporary worker accommodation
- ◆ Wage levels
- ◆ Labour provider monitoring
- ◆ Whistleblowing
- ◆ Modern slavery remediation policies
- ◆ Developing and retaining talent
- ◆ Attracting migrant labourers

Wider Sustainability issues:

- ◆ Biodiversity and water management
- ◆ Energy efficiency
- ◆ Packaging and waste management
- ◆ SEDEX auditing
- ◆ Community engagement
- ◆ Industry collaborations

Collaboration

The complexity of challenges within supply chains means that companies are increasingly working together to address significant challenges within categories as a more effective response than the historical audit-heavy certification regimes. Many of the issues are larger than any one company can fix alone, and so collaborative action across the industry at a pre-competitive level is important. Sainsbury's, for example, are involved in 42 different multi-stakeholder initiatives and working groups on social and environmental sustainability.

As part of the project, we heard from the British Retail Consortium, who have encouraged their members to agree common goals to address what they see as the biggest global challenges of the coming decades, including modern slavery and decent work, sustainable economic growth, inequalities, climate change and responsible consumption and production. Using the United Nations Sustainable Development Goals (SDGs) as a framework, the BRC created their 'Better Retail, Better World' programme. The Forum believes that investors should look positively on companies who are able to demonstrate that they are attempting to identify and mitigate risk, increase transparency, and build trust with society.



Engagement questions

As part of the project, we sought to address the following questions:

For companies:

- ◆ How should companies best allocate resources in corporate reporting/ investor relation teams with regard to provision and communication of non-financial data?
- ◆ How can companies encourage investors to incorporate insights from non-financial metrics into their investment conversations on matters which are material to company value?
- ◆ How should companies balance the tension created by short-term competitive factors and consumers' preference for low prices with the desire to create a sustainable, resilient supply chain and to act in a responsible way?

For investors:

- ◆ What signals can be sent to corporate executives to recognise and incentivise good business practice, empower internal teams, and reinforce positive behaviour?
- ◆ What impact should responsible business practices have on the valuation multiple investors attach to a company? How can workforce related risks be reflected in valuation frameworks?

S-360: Engaging on Marine Plastic Pollution

McInroy & Wood, a private client discretionary investment manager and a Member of the Forum, approached us to explore how investors might play a more active role in addressing the problem of marine plastic pollution.

Plastic pollution is clearly a complex global issue that needs to be tackled through collaboration between governments, the corporate sector and wider society, and there are various initiatives driven by a number of stakeholders to tackle the problem. We felt that collective investor action, to complement individual, company-specific engagements, had the potential to provide a powerful expression of investor willingness to use institutional influence in a way that is consistent with their fiduciary duties.

The Forum hosted an event for 12 Members to discuss the issue with experts from Flora & Fauna International (FFI). The mission of FFI, established over a century ago, is to conserve threatened species and ecosystems worldwide, choosing solutions that are sustainable, based on sound science, and which take into account human needs. FFI is a core NGO partner of the Commonwealth Clean Oceans Alliance which was announced in April 2018 to address Sustainable Development Goal 14 – “Life below water”.

Plastic pellets

Pre-production plastic pellets – otherwise known as nurdles – are deceptively attractive bits of plastic that are the building blocks of the plastic industry. Pellets can escape at various points in production, manufacturing, storage, transportation and recycling. These pellets are routinely released to the marine environment through ongoing routine operations.

FFI has been talking to a range of brands and retailers about pellet pollution, and its potential risk in their supply chain. They advised that the use of existing and familiar supply chain standards – ie by including pellets within existing resource and environmental management standards – would create a platform from which to promote the adoption of best practice pellet management techniques.

“On behalf of Fauna & Flora International, I would like to offer our sincere thanks for all the efforts of the group of Investor Forum Members that have been supporting efforts to address the problem of plastic pellets escaping from supply chains.

The combined voice of the investment companies who signed the letter to BRC Global Standards is extremely influential, and I am sure contributed significantly to the decision by BRC Global Standards to explicitly include pellet management within their revised packaging standard.

We applaud the efforts of all the members of the investment community involved in this initiative, and hope that there are opportunities for ongoing collaboration in addressing the global plastics pollution phenomenon.”

Mark Rose, CEO, Fauna & Flora International

Providing a collective voice

In March 2018, the Forum helped McInroy & Wood coordinate a letter (co-signed by sixteen investors, with combined global assets under management of over £2trn) to the BRC Global Standards agency to encourage them to incorporate pellet management into global packaging standards. The revised standard, used by over 4,000 companies globally, will now include pellet management.

Investors have also now written to the ISO and BSI families of standards, and the European Committee for Standardisation with a similar request. They would like to see a proliferation of standards that can be used by their investee companies to demonstrate good pellet management, appropriate to different actors in the supply chain.

As this is an emerging area of interest, the Forum remains available to act as a mechanism for the exchange of information and ideas, and to use its network to bring together interested investors who may wish to act collectively to address the issue at a system-wide or company specific level.

S-360: Investigating ADR Proxy Voting Issues

ADR proxy voting has been a long-standing concern for investors in both ordinary shares and the ADR instruments. This issue was first raised by Baillie Gifford who highlighted significant concerns following direct engagement with a company. They asked the Forum to investigate possible wider implications as part of our S-360 programme.

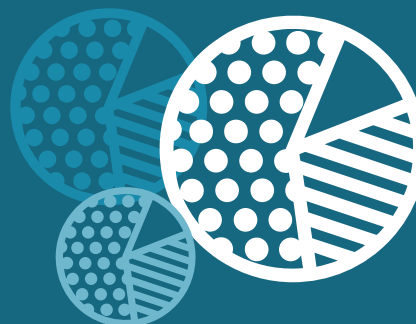
The Forum formed a working group of investors, and sought input from a number of technical experts. The project reviewed the programmes and documentation for the 29 UK companies which currently have listed ADRs. We investigated two issues:

- ◆ **voting solicitation** – the potential adverse impact arising from unequal rights to information; and
- ◆ **“auto-proxy”** – voting by the company of uninstructed proxies.

Following our investigation, we wrote to the Chairs of the UK companies with listed ADR programmes to share our findings and, where appropriate, to encourage an improvement in practice.

Background

American Depositary Receipts (ADRs) are dollar shares issued in the US by a Depositary Bank, representing foreign shares held by the bank outside the US. The terms of the ADRs are defined in an operating contract – the Depositary Agreement – that is filed with the SEC and is available for inspection. ADRs can be listed or unlisted, sponsored or unsponsored; this project focuses on listed, sponsored ADRs.



Market Data⁴

- ◆ **Over \$1trn is invested in equities** held in Depositary Receipt (DR) form. The top 10 issuers account for almost 50% of the invested assets.
- ◆ Globally, there are **over 3,000 programmes in 77 countries**, with concentrations in Russia, Brazil, Mexico, China and the UK.
- ◆ **Over 3,000 US institutions**, and over 1 million retail investors, hold DRs. The top 10 institutional holders of DRs worldwide have invested circa \$200bn through these instruments.
- ◆ **\$445bn of investment in European ADRs**, across more than 800 companies, suggests widespread investment by US investors. In reality ADR investment is fairly concentrated:
 - 82% of all investment is held in 82 issuers with ADRs listed on the NYSE or NASDAQ.
 - A further 14% is held in the 258 sponsored OTC ADRs, many of which delisted from the NYSE or NASDAQ in 2007 when the SEC amended its deregistration rules.
- ◆ In total **259 UK companies** have ADRs:
 - 121 are sponsored by the company (of which 29 are listed)
 - 138 are unsponsored.

⁴ Source: Bloomberg, NYSE, NASDAQ and adr.com as at September 2018.

Vote solicitation

Although ADR holders have the right to vote, they do not automatically have the right to be informed of the vote. In the universe of 29 listed ADRs that we examined:

- ◆ the Depositary Agreement (DA) contractually requires the Depositary or the company to solicit votes in 27% of cases;
- ◆ in 62% of cases, the Depositary will only do the above “if requested by the Company in writing in a timely manner”.

For those ADRs listed on the New York Stock Exchange, listing rules require solicitation of proxies. This is not, however, the case for the five companies whose ADRs are listed on NASDAQ. We believe that, as a matter of best practice, the default position in the DR agreement should be that the Depositary will distribute a notice of the meeting and any associated materials.

Auto-proxy

The practice of a company voting uninstructed proxies was a core focus of this project. Given that typically only 70% of ADR votes are instructed, a material number of votes could potentially be directed by a company’s auto-proxy policy.

In reviewing the 29 DAs we discovered a range of practice:

- ◆ 59% of cases had either no or very narrowly defined auto-proxy rights;
- ◆ in 41% of cases, if no instruction is received, the Depositary will give a discretionary proxy to a person nominated by the Company to vote the shares. In two cases, they are free to do so even if “substantial opposition” exists.

We understand that many companies do not, as a matter of course, exercise the discretion that they have without first specifying in the notice whether or not they will do so. As a matter of best practice we believe that the default position should be that there is no discretion given to exercise auto-proxy rights.

“We felt the Investor Forum would be best placed to coordinate and guide a review of this scale and are very pleased with the outcome.”

Tara-Jane Fraser, Baillie Gifford

Action

With the support of 14 Members, we wrote to the Chair of each of the 29 companies, commending those who complied with best practice, and asking those who did not to increase transparency in 2019 and take action to amend the wording within Depositary Agreements, ideally no later than the 2020 General Meeting.

Outcomes

Companies have responded very constructively to this project, with many acknowledging the apparent anomaly. We are collating the responses we have received and proposals to amend current practice.

We intend to publish a more extensive note on this project as well as the outcomes later in 2019, which will establish best practice in the UK and create an important reference point for international markets.

Non-financial information moves centre stage

The dialogue between listed companies and investors on sustainability issues is beginning to change. There is no doubt that discussions regarding financial performance and near-term business trends dominate investor meetings, but companies are beginning to detect a change, particularly with regard to the range of issues raised with Chairs.

We review below the drivers of demand for increased disclosure from different stakeholders, as well as the supply of non-financial information.

Asset owners

The sustainability agenda is rapidly rising in importance with asset owners, with ESG-integration questions now common in RFPs for all asset classes. In parallel, Sustainable Development Goals (SDGs) offer a framework to begin assessing ESG credentials of investments, and asset owners are beginning to request quantifiable data to provide evidence that an investment manager can deliver against mandates which seek to achieve impact as well as an agreed range of financial returns. In turn, the investment managers are increasing their demands of companies. As products are developed across the capital structure to meet client demand, there will be a clear impact on the cost of capital for companies.

Stakeholders and regulators

The European Parliament's Committee of Economic and Monetary Affairs has recently endorsed a decision that makes it mandatory for all financial market participants, including investment managers, to disclose both the sustainability risks and impacts of their portfolio. As this decision works its way into national laws and standards, the financial system will need to increase transparency and standardise both language and methodology to deliver consistent and meaningful aggregate portfolio reporting.

There are an increasing number of surveys by NGOs and special interest groups that critically evaluate leading brands and companies on human rights and social issues. For example, 2018 saw Oxfam publish "Ripe for Change: Ending Human Suffering in Supermarket Supply Chains" and ShareAction launched the Workforce Disclosure Initiative for increased transparency

from companies on how they manage workers, with support from 110 investors.

Asset managers

Investors are beginning to issue policy statements and implement enhanced voting practices to address concerns in these areas. Many stakeholders have begun to review external benchmarks of company behaviour, and investors are increasingly lending their support to NGOs and other interest groups to advance change. The rankings provided by such surveys can offer important insights, although there are many questions to be asked about the consistency and reliability of the data used.

Given the scale of the integration challenge, investors are looking for authentic responses from companies in response to enquiries on this wider range of ESG concerns. Real case studies, concrete milestones and an honest assessment of the challenges ahead are needed to increase trust that the material issues are being given appropriate attention.

Disclosure

As more information becomes available, investors face the challenge of distilling the data into a usable format. In many cases this data will be curated from sources which are external to companies. As investors become comfortable with such alternative sources of information, we are likely to see an important shift in the nature of investor dialogue – away from narrow financial discussions, where there is an asymmetry of information in the company's favour, to a much broader discussion and interaction.

Many investors subscribe to specialist research providers, who collate the publicly available information and produce ESG scores. Increasingly such ratings are becoming a factor in portfolio construction, in much the same way that credit ratings are integral to many fixed income investment decisions. For example, some asset owners use ESG ratings to scale position sizes for their investment managers, in effect reducing exposure to companies who score poorly. Companies may well find that, over time, it will be necessary to manage ESG ratings with the same degree of rigour as is currently applied to credit ratings.

Information overload

Companies are being inundated with surveys and requests for information and many question the value of responding to all the requests they receive, especially since, in many cases, published information (eg Modern Slavery Statements) is rarely questioned by investors. Investors should therefore consider how best to use the existing non-financial information effectively in their company assessments, and what additional detail is genuinely likely to drive a material improvement in their assessment of the key issues. It is incumbent on investors to be mindful to avoid over-burdening companies with duplicative requests.

Conclusion

Investor pressure often results in increased disclosure and we would expect this to be an important trend in the coming years, given an increasing focus on impact in its broadest sense. Companies will want to control their own narrative, and there would be a clear benefit if companies could signal more effectively the full range of sustainability materials produced to the wider investment community. A proactive and comprehensive approach would increase the likelihood that information produced is effectively incorporated within rating assessments and, importantly, the mainstream investment debate. It would also narrow the focus of requests for additional disclosure.

“ Our membership of the Investor Forum has been valuable in enabling a firm of our size to leverage its position, and bring collective pressure to bear on companies and organisations to effectively address ESG concerns. ”

Tim Wood,
CEO of Mclnroy & Wood



Review of Operations

Organisational structure and governance

Introduction

From the outset we have sought to adopt governance standards that are consistent with the very best corporate governance practices in the UK, whilst being mindful of the characteristics of a membership-led Community Interest Company (CIC).

The Investor Forum was incorporated as a CIC in September 2014, with Members granted equal voting rights and a Board of Directors drawn from across the investment chain and wider stakeholders.

Board of Directors

We have an independent Board of Directors that is elected in January each year by our Members at an Annual General Meeting. The composition of the Board is intended to reflect Member interests as well as having independent voices from industry, academia and the corporate world to bring a diversity of perspectives. The Board oversees the work of the executive officers. The Chairman and Board are supported by a Senior Independent Director and two sub committees.

Since inception, the Board has supported the growth of the Forum and provided wise counsel, practical advice and challenge. We are grateful for the time, experience and insights that they have provided pro bono. With the exception of the Executive Director, no director receives a fee or any expenses.

Board Members

Simon Fraser¹
Chairman

Edward Bonham Carter²
Jupiter

Mark Burgess
Columbia Threadneedle
Investments

Paul Coombes
London Business School

Sir Peter Gershon
National Grid plc

Andy Griffiths
Executive Director

Jessica Ground
Schroders

Chris Hitchen
Border to Coast
Pension Fund

Ida Levine³
Capital International

James Macpherson
BlackRock

Nick Moakes⁴
The Wellcome Trust

Sacha Sadan
Legal & General
Investment Management

Robert Swannell
UK Government
Investments

¹ Chairman of the Nominations and Remuneration Committee

² Senior Independent Director

³ Chairman of the Operating Oversight Committee.

⁴ Not standing for re-election in 2019

The **Nominations and Remuneration Committee** identifies, evaluates and recommends to the Board candidates for appointment or re-appointment as Directors. The Committee keeps the mix of knowledge, skills, diversity and experience of the Board under regular review and seeks to ensure an orderly succession of Directors. It also monitors the outside directorships and broader commitments of the non-executive Directors.

The Board has a policy for refreshment and diversity, and seeks to maintain a balance between Member representatives and independent Directors.

The **Operational Oversight Committee** has delegated authority from the Board to oversee the effective legal, audit, risk and financial management of the business.



The approach to our core activities is described in three documents:

Collective Engagement Framework

outlines our engagement process;

Governance Framework

details all membership and organisational matters;

Employee Handbook

contains all our internal procedures.

“Over the four years since its inception, the Forum has built its operational resilience to become an established, member-funded organisation, supported by the industry and guided by a strong leadership team.”

Ida Levine,
Chair of the Operating Oversight Committee

Executive team

During the year we added two part time consultants as we build out our capabilities in a flexible fashion. We continue to attract experienced professionals who are motivated to make a practical contribution to the evolving stewardship debate.

At the end of 2018, in addition to the Chairman, the Executive comprised 7 professionals each with 15-30+ years of experience supported by 2 part time team members.

Operations

In August 2018 we launched an enhanced website, including, for the first time, a dedicated Member areas which includes information relating to live engagements and research related to S-360 projects.

Financial resources

The Investor Forum CIC (company number 09242326) has a financial year end of 30 September. A copy of the Report & Financial Statements (audited by Sayer Vincent LLP) is posted at Companies House each year as are any changes to the Board of Directors.

As a not-for-profit company, our financial objective is to balance costs with anticipated revenue. Over time we will seek to accumulate a reserve, equivalent to a maximum of six months of operating costs, to help manage the natural variability of income and expenditure.

The Investor Forum is an independent entity funded solely by subscription fees from its members. For the year ending 30 September 2018, membership revenues (from 42 members) were £922,831 and the company recorded a surplus of £90,454 for the financial year after taxes.

The funding approach of a CIC is unique in that any reserves generated cannot be returned to the original investors, but must be used for the benefit of the community or else, in the event of the company being wound up, transferred to an “asset-locked body”. Our asset-locked body became registered charity “Business in the Community” when Members agreed the revised Articles of Association in June 2017. At 30 September 2018 The Investor Forum CIC held reserves of £166,826.

Collective Engagement Framework Review

A key objective of the Investor Forum is to facilitate an effective model for collective engagement with UK-listed companies. Our Collective Engagement Framework has been developed to ensure that all participants are clear what the boundaries are and feel confident that they are operating in a safe and secure environment.

The Framework is a step-by-step guide which we use in all engagements. It is reviewed regularly to enhance best practice and in order to reflect the changing regulatory and legal environment. The Framework, including additional background material, is available to Members upon request. A summary is available on our website.

Purpose of the Review

We reviewed the Forum's Collective Engagement Framework with our Legal Panel in 2018 and asked these questions:

- ◆ Does the Framework achieve its purpose? Have issues with the Framework been raised by the Forum, its Members or companies as the result of practical experience?
- ◆ Does the Framework still create a safe and secure environment, addressing both perceived and real obstacles?
- ◆ Are there emerging regulatory or legal developments which should be considered?

“Companies and investors tend to talk too much about short-term financial developments. The Investor Forum has helped to draw out and increase the focus on a broader range of issues which drive long-term value such as culture, ethics and wider stakeholder perspectives.”

James Macpherson,
Deputy CIO Fundamental Equities, Blackrock

Conclusions

- ◆ **The Collective Engagement Framework remains fit for purpose.** The Panel is confident in the efficacy of the existing Framework, and no major issues have been raised in practice. Our recent Member survey highlighted the importance placed on the Framework in the Forum's approach and its critical role in encouraging effective collective engagement.
- ◆ **The Framework creates a safe and secure environment** and works well to overcome legal and regulatory concerns. In our recent survey, 93% of Members cited a “safe environment (legal framework)” as important or very important when considering participation in a collective engagement via the Forum.

The Panel continues to support the Forum, and has been reviewing several emerging legal and regulatory topics to consider if they have implications for the Forum's Framework. In the update we are reflecting elements of one of the topics we reviewed, Competition Law. Although we have always considered aspects of competition law in our practices, we thought it would be useful for Members to see how this issue has been considered in relation to collective engagement by investors with companies.

We also reviewed five other topics, which have not been considered of direct relevance to the Forum's Collective Engagement Framework, but are of relevance to stewardship practices: EU Shareholders Rights Directive; the FCA Asset Management Review; Fiduciary Duties of Investment Managers; Senior Managers and Certification Regime; and Revisions to the Corporate Governance Code. We intend to develop further these latter topics during 2019.

We would like once again to thank our Legal Panel for their support: Davis Polk & Wardwell; Hogan Lovells; Macfarlanes; and Skadden, Arps, Slate, Meagher & Flom.

Collective Engagement Framework

The Forum put in place a legal, operating and governance structure which helps to meet the Forum's objectives whilst minimising legal and regulatory risks to participants.

Particular attention has been paid to certain considerations applicable to U.S. investors. To do so, the Forum sought guidance from a panel of law firms, culminating in the publication of its "Collective Engagement Framework" in October 2016. The updated framework will be made available to Members and a summary version is publicly available on the Forum's website.

The Collective Engagement Framework has been designed to take into account the need to safeguard against:

- ◆ creation and dissemination of inside information, inadvertently or otherwise;
- ◆ creation of concert parties under the City Code;
- ◆ triggering group filing requirements under Section 13 of the U.S. Securities Exchange Act;
- ◆ creation of concert parties or acquisition of control of, including by exercising a controlling influence over, any Company under the U.S. Bank Holding Company Act of 1956; and
- ◆ violation of laws.

Each proposed Engagement is evaluated for consistency with the Forum's principles:

- 1.** is it proactive and grounded in economic rationale?
- 2.** is there a long-term focus?
- 3.** is there likely to be a constructive solution?

The Forum evaluates whether there is a reasonable prospect of securing sufficient support among the Company's largest shareholders to foster a meaningful dialogue with the Company and whether there is a reasonable expectation of conducting the Engagement in accordance with the Forum's policies and procedures and all applicable laws and regulations. After consultation with Members, a decision is taken whether or not to proceed with the proposed Engagement.

Once the decision has been taken to proceed, Members are canvassed to determine if they would like to participate in the Engagement, and selected Non-Members may be approached. The Executive will typically communicate on a bilateral basis with Members to develop an Engagement Strategy.

Communication with the company is undertaken by the Executive in a constructive manner, with the aim of helping the company to understand the range of views of participants. In so far as within its control, the Forum seeks to keep communication confidential to the Members participating in the Engagement. However, escalation strategies are considered and agreed with Engagement participants when necessary, which can involve public communications.

Engagements are monitored for consistency with the Forum's principles and Code of Conduct and with the objective of maintaining a safe and secure environment. Heightened procedures can be invoked if necessary, and specialist advice or regulatory guidance sought as required. An Engagement can be altered or terminated at any time.

Conclusion of an Engagement is considered if the outcome(s) specified in the strategy are achieved, it is determined that they are unlikely to be achieved, or if there is no longer sufficient Member support to pursue the Engagement, among other reasons. A communication strategy is agreed, including the possibility of public statements if necessary.

Legal Panel and Associate Members

Legal Panel

From its inception, the Forum sought advice from a panel of law firms, which worked with the Board and Executive to put in place a coherent framework for the management of engagements. Since then, the Investor Forum has received extensive pro bono support from a number of leading law firms, playing a key role in helping the Forum devise a safe and secure legal and regulatory environment in which to undertake collective engagement.

The Legal Panel continues to perform an important role in the Forum's operations. They have been able to assist the Forum in adapting its practices to any changes in the legal and regulatory environment.

For the Investor Forum Members, the Panel has provided great insights at workshops on legal and compliance issues in areas that Members have sought a greater understanding of the issues. In 2018, we were invited by one of our Panel members to take part in the discussion entitled 'Activism and Governance on Both Sides of the Atlantic.'

We would like to thank the current members of our Legal Panel for all their ongoing support.

Davis Polk

**Hogan
Lovells**

MACFARLANES

Skadden

Associate Members

The Investor Forum invites non-investment organisations who are interested in, and supportive of, the purpose and objectives of the Forum to join as Associate Members. Whilst they do not have the right to participate in Engagements, they are invited to contribute to the Stewardship 360 event programme and

join discussion groups. The Forum collaborates with Associate Members on selected bespoke projects and other initiatives. We were pleased to have EY, our associate Member, join us in a panel discussion on why investors engage with companies and the value of collective engagement, as part of a 'City Week 2018' event that we hosted.



Membership

Full membership of the Forum is open to any institutional investor in a UK-listed company, whether asset manager or asset owner, and irrespective of where that investor is located. As at 31 December 2018 there were 43 full Members.

All except one Member has consented to the publication of their names, and a list is given on page 44. The other Member has opted to remain anonymous.

We actively seek a broad group of investment organisations within our Member base, with investment styles from across the spectrum. Our membership offer incorporates different fee levels to recognise, amongst other things, global assets under management, UK equity investments, likely level of participation in collective engagement activities and involvement in the Stewardship 360 programme.

In 2018, we welcomed 9 new Member firms, including international and domestic asset owners, large institutions and smaller boutiques, all of whom help to add a valuable dimension to the collective engagement work that we undertake. We were delighted that all existing Members renewed for another year.

To become a full Member of the Investor Forum, and to participate in collective engagements, investors are required to:

Sign:

- ◆ A Membership Application form; and
- ◆ The No-Concert Party and No-Group Undertaking.

Abide by the Investor Forum:

- ◆ Articles of Association;
- ◆ Code of Conduct; and
- ◆ Rules of Membership

Our framework is designed to give confidence to Members and demonstrate to regulators and standard setters how we conduct ourselves.

What Members can expect from the Investor Forum:

Our approach is:

- ◆ **Value-driven:** we base collective engagement on economic rationale
- ◆ **Discreet:** we avoid unnecessary public confrontation
- ◆ **Safe:** we limit the legal and regulatory risks
- ◆ **Constructive:** we identify solutions
- ◆ **Methodical:** we have a consistent and robust process
- ◆ **Best practice:** we enhance stewardship by investors and boards alike

We want to help our Members:

- ◆ Realise long-term benefits for their clients and beneficiaries
- ◆ Maximise their return on engagement effort
- ◆ Be confident that collective engagements will be safe, secure and discreet
- ◆ Demonstrate a commitment to high quality stewardship to all stakeholders
- ◆ Contribute to the long-term success of UK-listed companies for the benefit of the broader economy

Our Members

AberdeenStandard⁵
Investments

Allianz
Global Investors

ARTEMIS
The PROFIT Hunter

AVIVA
INVESTORS

INVESTMENT
MANAGERS

BAILLIE GIFFORD

BLACKROCK®

BMO

BP Investment
Management

CAPITAL
GROUP

Cevian Capital



COLUMBIA
THREADNEEDLE
INVESTMENTS

EVENLODE
INVESTMENTS FOR LIFE

Fidelity
INTERNATIONAL

generation__

GIC

HERMES
INVESTMENT MANAGEMENT

HSBC
Global Asset Management

INDEPENDENT
FRANCHISE PARTNERS™

Invesco

Investec
Asset Management

Janus Henderson
INVESTORS

J.P.Morgan
Asset Management

JUPITER

KENNOX
TRUE VALUE INVESTORS

Legal &
General
INVESTMENT MANAGEMENT

M&G
INVESTMENTS

MAJEDIE
Asset Management

McInroy & Wood
PERSONAL INVESTMENT MANAGERS

Merian
GLOBAL INVESTORS

OP
Oldfield Partners

OU endowment
management

OWNERSHIP CAPITAL

Pyrford

Rothschild & Co

RPMI
RAILPEN

Schroders

T.Rowe Price

UBS
Global Asset Management

USS
INVESTMENT
MANAGEMENT
LIMITED

W
wellcome

⁵ Each predecessor entity was previously counted as a Member.



THE INVESTOR FORUM

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