The Four Dialogues

The need to improve how Investors and Companies engage on Governance

Prepared for

THE INVESTOR FORUM

SUMMARY REPORT

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April 2019

Background and Purpose

This report has been prepared to examine the way in which companies and investors engage on Governance matters and to consider how the interaction may be improved. It is very much focussed on a practical review of what actually happens on a day to day basis and how such engagement works in practice.

It was commissioned by the Investor Forum, which facilitates collective engagements with UK listed companies on behalf of its Members, which are leading investors and asset owners.

Following a series of discussions with company Chairs and senior investors, the Investor Forum asked Jonathan Atack to carry out this research, focussing initially on the perspectives of the companies.

Jonathan is a very experienced Investor Relations professional, having been head of Investor Relations at six large companies across a variety of sectors and having received recognition with a number of IR awards and nominations. In addition to several other relevant finance roles he was also the global CFO of ING Investment Management, with almost EUR 400 billion under management in over 30 countries.

The preparation of this report has been done on the basis of desk research and almost 40 interviews with representatives from across the investment chain:

- Company: Chairs, Company Secretary, Investor Relations, Corporate Affairs
    - 16 corporates, of which 13 FTSE100 and 3 FTSE250
- Investors: Portfolio Managers, Governance and ESG specialists, and Asset Owners
- Advisers: Corporate Brokers, IR and Financial PR, Recruitment, Proxy Solicitation

The interviews were carried out on an unattributable basis and we are grateful to those that gave their time and insights.

This document represents a summary and interpretation of the information gathered. The views presented are those of the author.

It presents a model of how the dialogue is currently structured and where there may be deficiencies. Much of the material of necessity presents broad generalisations behind which a very broad range of realities exist.

The purpose of this document is to provide a basis for debate on the effectiveness of current practices.

It raises some key questions and provides a framework for reflection and evaluation.

This document is a summary of the main report. It contains the key points and executive summary along with selected, detailed, sections focussed on the Four Dialogues framework and main findings.

KEY POINTS

Conclusions

- **Substantive discussions on longer-term, strategic Governance are crowded out by the emphasis placed on short term reporting, modelling and checklists for AGM voting**
- **There is an apparent disconnect between the way that companies and investors view engagement on Governance**
- **Interactions between companies and investors can be divided into Four Dialogues, based on whether they are focussed on Governance or Execution, and their timeframe. Each of the dialogues has different participants, subject matter and objectives:**

	Transactional	Strategic
Governance	AGM Voting	Board effectiveness
Execution	Results and modelling	Forecasts and targets

Recommendations

- **There is scope to make significant improvements in the effectiveness of this dialogue through managing time and resources more effectively to optimise the outcome for all parties**
- **Greater clarity from Investors on how Governance is taken into account in investment and stewardship decisions, including the role of advisers, would facilitate more meaningful dialogues**
- **More effective dialogue with Chairs and NEDs should provide investors with increased insight and confidence in the long term, sustainable creation of value for all stakeholders**

Proposed Actions

- **Companies and investors could consider the true focus of their dialogues and whether they need to clarify priorities and re-allocate their resources to make them more effective**
- **Investors should be clearer about how they integrate Governance factors into their investment decisions and stewardship responsibilities**
- **Companies should provide regular, structured access for investors to key Board members, including the Chair and heads of key Board committees**
- **The role of the intermediaries involved in Governance discussions needs to be clarified. Companies and Investors should own the dialogues**

Executive Summary

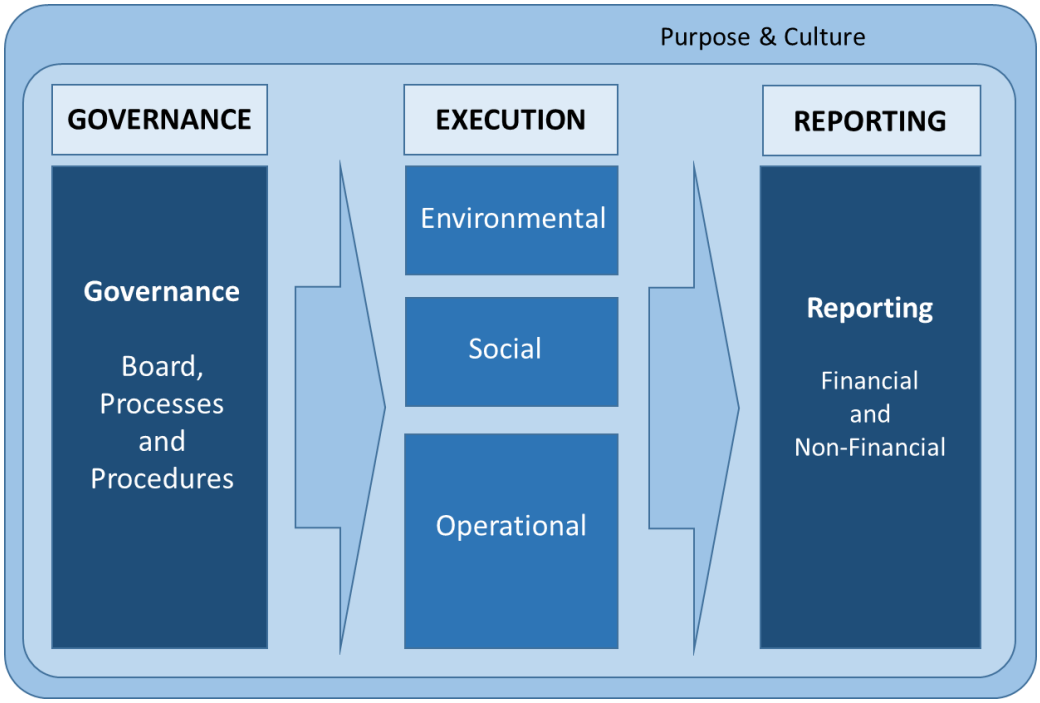
Background

The nature of company/investor engagement is beginning to change due to increased focus on responsible and non-financial factors, often encapsulated in terms such as Environmental, Social and Governance ('ESG'). Pressure for change is coming from society, beneficiaries, regulators and asset owners.

Many investors have made positive commitments to taking full account of ESG factors and engaging actively with investee companies, **but there appears to be some doubt as to how widespread, or effective this engagement is**.

This report has been commissioned by the Investor Forum to look into how effectively companies and investors engage on the matter of Governance. It is based on interviews with almost 40 individuals actively involved in the discussions as well a review of other publicly available information.

The Company context



As a key objective of investors is to increase value through investment returns, **the importance of ESG engagement is to ensure the long term sustainability of value creation**.

There is a particular focus on Governance as many investors regard this as an essential discipline for all companies which, if done well, will have a positive impact on all areas of the company's activities. The **Execution** of the company's activities would then include Environmental and Social factors, as well as the ongoing Operations of the company. Many of these factors will be company or sector specific and would be well managed if the overall Governance of the company is good. All companies must then **Report** on their activities and results.

Overarching all these processes and actions is the company's **Purpose and Culture**, which will be fundamentally important in defining their effectiveness

The Disconnect

Many companies have found that it is harder to have meaningful discussions with investors on Governance matters, particularly when compared to regular discussions on short term results. Many reasons are given for this, but there does appear to be **a fundamental disconnect** between the way that investors explain their level of interest in long-term Governance, and the experience of companies in their dialogues with the investors. A recurring theme is that there is only downside from bad Governance, with limited or no upside from demonstrating good Governance.

The Four Dialogues

	Transactional	Strategic
Governance	Transactional / Governance **AGM Voting**	Strategic / Governance **Board composition and effectiveness**
Execution	Transactional / Execution **Results and modelling**	Strategic / Execution **Forecasts and operational targets**

This report considers **the different types of dialogue** that take place between investors and companies. It finds that there are several distinct dialogues that vary in terms of subject matter, participants and time-horizon, as well as in the nature of the data used, the purpose of the dialogue and the intermediaries that are involved.

The dialogues can first be considered in terms of **the subject under discussion**. There are ongoing discussions about the way that the company is **executing its business**, as opposed to other dialogues that are based on the **Governance** of the company. The latter dialogues are more driven by the company secretary and the Non-Executive Directors ('NED's), whereas the execution discussions tend to involve the CEO, the CFO and the Head of Investor Relations. Similarly, the investors tend to be represented by sector analysts and Portfolio Managers for the execution dialogues, whereas specialists in Governance will be more likely to lead in Governance meetings.

Each of these dialogues also has a short-term element, more focussed on **transactional** matters, and a longer-term element, with a more forward looking and **strategic** emphasis. This further segregates the Governance/Execution dialogues into short/long term elements – giving **the Four Dialogues that tend to dominate the Company/Investor interaction**:

Each of these Four Dialogues tends to have different participants, with different content and base data used to inform and underpin them.

The Effectiveness of the Four Dialogues

It is also clear that **very different levels of resources** are deployed for each of these dialogues, with the Transactional/Execution dialogue dominating. It is focussed on dealing with short-term or quarterly reporting and updating investors' valuation models. This is followed by the Strategic/Execution dialogue, which is structured around managing the medium term expectations of delivery by senior management. Most companies that we consulted estimated that they spend more than 50% of their time on the former and closer to 30% of their time on the later.

	Transactional/Short term	Strategic/Medium - Long term
Governance	2% to 20%	1% to 7%
Execution	45% to 70%	20% to 45%

This leaves relatively little, only 15% to 25%, of their time for the Governance dialogues, which are also generally thought to be more biased to the short term Transactional discussions. These are primarily focussed on the AGM and voting by the investors. Lastly, **the Strategic/Governance dialogue seems to be the one with the least time and resources committed to it**. This might seem surprising given the importance of ensuring the company is well managed.

This therefore raises the concern that too much time is spent on dialogues that are more short term focussed and which are **crowding out** the Strategic Governance dialogue, which probably should be given a higher priority.

One potential explanation for this is that the **Execution dialogues are clearly linked to the modelling and valuation of the company**, which is essential for the investor to monitor the performance of the company and assess its value creation – usually captured in some form of financial model, based on audited information. This gives a robust basis for the meeting as well as a clear purpose to the dialogue.

On the other hand, **Governance based dialogues often lack a comparable focus on value** and the grounding in assured, quality data. **Often the effectiveness of this dialogue is diminished when it is effectively outsourced to advisers and ESG analysts** who take a checklist approach. This limits the direct dialogue, but also diminishes the opportunity to explain deviations from the checklists.

Even when there is a chance for meaningful dialogue, it can be rendered less effective if the purpose of the conversation does not have a clear link to the long-term value creation of the company. **There is clearly scope for more transparently integrating Governance factors into the valuation**.

The Apparent Disconnect

It seems that there is a disconnect between the position taken by many investors, regarding their commitment to ESG engagement, and the practical experience of companies.

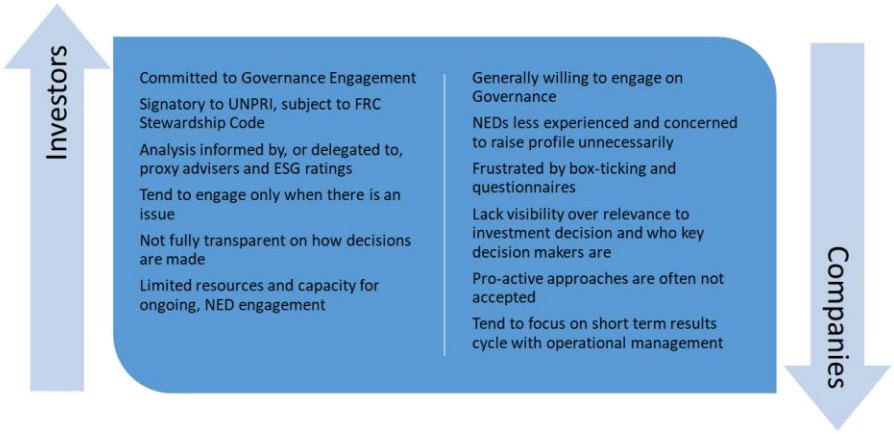


Figure 1 The disconnect between investors and companies

Whilst companies are generally willing to engage and explain or discuss their Governance, their pro-active attempts to do so are often rebuffed. Where there is engagement, it is often formulaic and checklist based, managed by advisers, without meaningful direct interaction between directors and investors.

It was almost universally felt that analysis was very short term and financially driven. Companies felt that there is excessive focus on short term factors such as quarterly reports and share price movements. Companies have generally become very adept at managing these short term interactions over results and announcements, with active investor relations functions which have become very professional and serve their audiences well.

Discussions revealed many related areas of concern, suggesting that investor behaviour was not always consistent with the high level of public commitment. Such examples include comments by regulators and journalists

The Four Dialogues

The current engagement dialogue

In order to understand how the apparent disconnect has arisen, it is helpful to breakdown how the current engagement dialogue happens. It seems that the current dialogue between companies and investors has become largely separated into several distinct dialogues. These can be described as Governance and Execution, but each has very different characteristics.

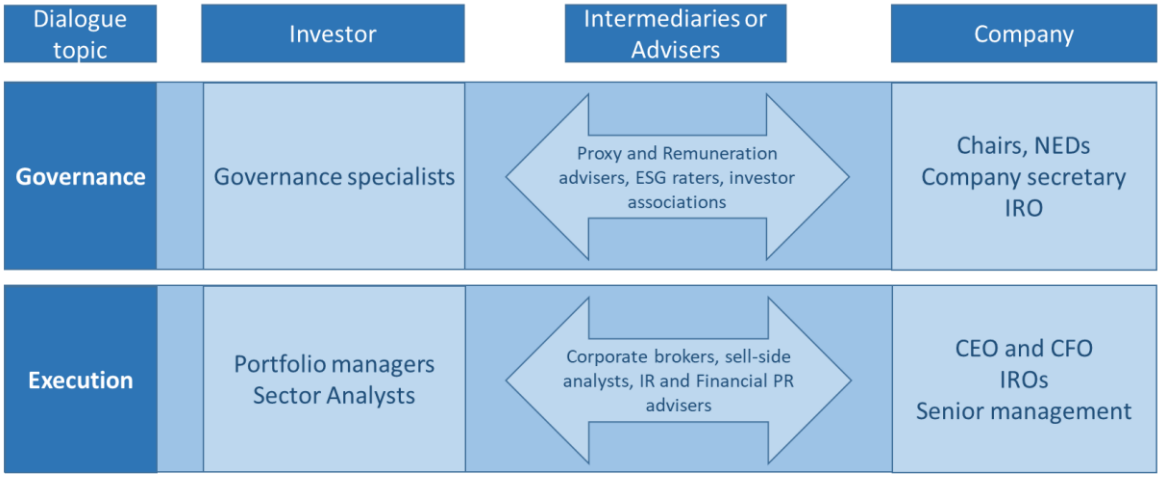


Figure 2 The two main types of dialogue between companies and investors

The Execution Dialogue

The main dialogue between investors and companies is driven by the ongoing execution of the company's business operations and is heavily dependent on the short-term financial results.

This dialogue is now generally well established and efficient. It takes place between the company CEO/CFO and the investors, who usually rely on in-house analysts with a sector specialisation, and the Portfolio Managers of the individual funds that have invested in the company.

The company directors are supported by professional in-house Investor Relations ('IR') teams as well as a range of external advisers including investment bankers and corporate brokers – who have a particular role to play in the UK market. There are also research intermediaries, most particularly sell-side analysts, who provide independent research and contribute to market efficiency and transparency.

The nature of the dialogue is driven by financial metrics, such as sales, costs, advertising spend, profit margins, profits, tax rates, cashflow, capital investment and returns. Key drivers of these metrics, such as pricing, market share, economic growth, product mix, volumes, outlet numbers, numbers of customers and capacity are also very much part of the dialogue as they directly impact the delivery of the financial results.

The quarterly reporting of the results gives regular updates to investors and this data is then the basis for updating their views on the company's prospects. In essence this is summed up in some form of valuation model, which enables the investor to make decisions around the attractiveness, or otherwise, of the shares that they hold. The degree of confidence that the investor has in the delivery of these future results is vital to the credibility of the valuation and companies will often seek to reinforce this by publishing their own targets or forecasts – but usually only on a one to

three or possibly five year view. The discussions are based on reported financial numbers which are ultimately audited and assured.

The engagement with investors usually takes the form of regular one-to-one meetings, or collectively in conferences and seminars, which enables investors to quiz management over their results and future strategy. A key element of these interactions is that it enables the investors to look the management in the eye and to form their own assessment of their credibility and competence. This underpins their confidence in the delivery of the forecasts.

Furthermore, the content of the discussion will vary from investor to investor. Each will tend to have their own views around what are the key metrics and sensitivities for each company. There is no 'standard' approach so the discussions are very much driven by the perspectives of the individual investor. This can lead to a very dynamic interaction and executive management often learn from the meetings.

There may be some discussion of Environmental and Social factors, and indeed there is a stream of engagements that focus more on sustainability and climate change. These should be regarded as a subset of the execution discussions, as they will tend to be company or sector specific and are closely dependent on how the company executes, within the larger Governance framework.

The Governance Dialogue

The dialogue between investors and companies on the matter of Governance is generally very different in almost every respect and primarily focussed on box-ticking in relation to a standard set of topics.

The dialogue is often only between the Company Secretary and the investor, usually represented by an intermediary that advises on voting at the Annual General Meeting of the company. This adviser will report to the Governance team of the investor which executes the voting at the AGM. The Governance team will engage directly with the company much less often and will have significantly less resources than the in-house sector analysts. The company IR function may be involved in the meetings but it appears to be very rare for any NEDs or Chairs to be involved in the normal cycle of such meetings.

A recent study by Citigate Dewe Rogerson[1] found that 49% of companies do not proactively offer any opportunities for investors to engage with NEDs and 37% of Chairmen do not meet investors outside of the AGM. This seems sub-optimal, as these are the individuals who are accountable for delivering good Governance.

The nature of the dialogue is generally limited to standard items that are either on the agenda for the AGM, or relate to established checklists – such as the FRC Governance Code. Such topics include Board remuneration, succession planning and the ability to issue shares. They rarely go into more subjective matters such as the company culture and strategy, and their implications for the future development of the business.

The AGM then passes and in another year the process is repeated.

[1] The evolving landscape; 10th annual Investor relations Survey, September 2018

It is often not clear how and to what extent investors really use ESG information, particularly Governance information, in their investment process and decision making. As a result there is less opportunity to engage in broader discussions around metrics whereby the company can seek to build confidence in its delivery and improve its valuation. Similarly there is limited opportunity for investors to look the relevant directors – the Chair, heads of board committees, the Senior Independent Director – in the eye and form a view on their competence.

> *'Comply or explain is not working. It only feeds the ratings so 'Explain' has no value. There is no nuance; investors do not add to the box-ticking.'*
> *IR Adviser*

It is also very much the case that active engagement on Governance often only happens after a significant issue has arisen. So whilst the Execution dialogue is forward looking the Governance dialogue is more typically focussed on ex post problem resolution.

Comparing the Execution and the Governance Dialogues

Governance	Often limited to AGM related decisions and voting Tendency to focus on topical matters such as remuneration, share issues and board appointments Mechanistic, box ticking approach via proxy advisers; onerous form filling for raters Rarely face to face; often not with the real decision makers or accountable NEDs
Execution	Financial results and quarterly reporting Targets for KPIs, such as EPS, returns, margins, top-line growth Regular, ongoing investor roadshows and other events with the CEO and CFO Strategy and operational reviews Possibly with a 3 to 5 year view

Figure 3 Comparing the Execution and Governance dialogues

It seems, therefore, that the Governance and Execution dialogues are carried on in two entirely different ways.

The Execution dialogue is thorough and value based, with clear metrics enabling a detailed and mutually beneficial engagement. Meanwhile, the Governance dialogue is much more mechanistic and is more of a process that has to be gone through, rather than an opportunity to really share thoughts and learning.

Comparing the two, the problem seems to be that the Governance dialogue is not rooted in the value consideration in the way that the execution dialogue is. Without clear metrics or an understanding of the how ESG metrics impact value, there is no currency for the discussion and no real grounding in value creation.

All participants seem to agree that good Governance is a strong contributor to long term value, but they fail to be able to quantify it and so there is no basis or incentive for meaningful debate.

There is no doubt that the dialogue and the analysis that does go on over Governance must generate data – but is this in fact limited to some form of rating that is not strongly linked to value creation?

There are certainly cases where perceptions of poor Governance leads to a refusal to invest – so there is clearly some element of a 'hygiene' factor at the negative extremes, but limited evidence of any positive benefit from engagement over ESG.

It is also clearly the case that a failure of Governance can lead to sudden and catastrophic value destruction. A case in point is Carillion plc which fell rapidly from a market capitalisation over one billion pounds Sterling to zero, by way of a series of profit warnings. This has led to much on-going agonising over what went wrong and why, but there is certainly much discussion about how a desire to support the share price in the short term led to dysfunctional decisions that led to the collapse. This clearly is contrary to the desire to support long term value and even despite around 40 pages of Governance reporting in Carillion's 2017 report and accounts.

It is also important to point out that there is one area of interest that might be perceived to straddle the Execution and Governance topics – and that is Sustainability. Indeed, the ESG space is often dominated by environmental and sustainability matters and as a result there is often a better dialogue in this area. As climate change is such a high profile megatrend it is on the agenda of the CEO/CFO and companies are keen to advertise their green credentials. It is also such a major driver of real trends in the global economy and the markets that it can have a more direct impact on valuation through the normal course of business. There is, therefore, a much better established round of conferences and analysts that do look into how companies are performing in this area and it is perhaps this that means the value impact is more real and taken seriously.

Given the earlier assertion that Governance leads, whilst Environmental, Social and Operational factors are more company specific, there is no real mis-match here. The sustainability discussion belongs in the Execution dialogue, where its relevance and importance will depend on the specifics of the company.

The Four Dialogues defined

Having set out above an argument that the engagement dialogue between investors and companies can be viewed as being split into Execution and Governance dialogues, we can now further break this down by adding an additional dimension. This dimension is to split each of the dialogue types into those with a more short term, transactional focus, and those with a more medium to longer term, strategic focus.

The transactional dialogues will be primarily focussed on dealing with short term, immediate reporting and actions, such as AGM voting for the Governance dialogue and Quarterly results for the Execution dialogue.

The strategic dialogues will be more forward looking, such as targets and investment plans for the execution dialogue and succession planning or risk management for the Governance dialogue.

This, in effect, enables us to consider four distinct types of dialogue that might exist between a company and its investors, with Governance and Execution further subdivided into Transactional and Strategic. This seems to be valid, as there is a general differentiation in the subject matter for each, further supported by the reality that each dialogue tends to involve different participants, as set out in Figure 6.

	Transactional/Short term	Strategic/Medium - Long term
Governance	Focus: AGM - Voting Content: Checklists Investor: Proxy adviser Company: Company Secretary Short term discussions on Governance, typically held between the proxy/ESG rating agencies and the Company Secretary. Usually focussed on the AGM and voting, often following checklists.	Focus: Board composition and effectiveness Content: Strategy oversight, remuneration, etc Investor: Governance specialist Company: Chairman, SID, NEDs More substantive discussions regarding Governance, probably with the Chairman or other NEDs and committee chairs and the Governance specialists at the investor. Covering strategy, board composition and succession, risk management, key priorities etc.
Execution	Focus: Quarterly results, modelling Content: Numbers Investor: Sector Analyst Company: IRO Short term performance and modelling to support company valuation, driven by quarterly results. Held with IRO and investor sector analyst. Sell-side provide more input.	Focus: Targets and tactics Content: Strategy and operations Investor: Portfolio manager Company: CEO and CFO Longer term discussion held with CEO/CFO and Portfolio Manager. Grounded in reported results, but with 3-5 year outlook, based on trends, targets and management actions.

Figure 4 The Four Dialogues

In meetings with company representatives this model has been a helpful basis for discussion and has been generally accepted as a useful way to view the types of engagement. Naturally the table shows a very distinct set of boxes, but there will of course be some overlap in practice and this really represents a broad segregation of what will be more of a continuum in practice.

We can see that the Execution dialogue has a transactional element that is very much driven by short term results, in particular quarterly results as a basis for updating and revising financial models. In these discussions the company IRO will take the lead and they will interact with the investors' sector analysts and the sell-side as a route to market for the investors. Typically the IRO will then take the CEO and CFO on the road to meet investors on a one-to-one or collective basis, or at conferences and other events. The dialogue here will still be execution based, but is more likely to be forward looking – the impact of current plans and actions, expected capex, new products launches, geographic expansion and KPI targets.

> *'We talk too much about numbers and not enough about strategy.'*
> *Asset Manager*

For the Governance engagement, the short term is typically focussed on the AGM and is very much defined by voting intentions. The Company Secretary may well take the lead and the IRO could be involved, but it is most likely that they will be talking to a proxy adviser or other third party rather than directly to an investor. In some cases there may be meetings with the Governance specialist of the major investors, but in either scenario the dialogue will be driven by the AGM agenda and often by standard checklists. For the longer term, strategic discussion, this will be with the Chair of the board or other NEDs and will involve the Governance specialists of the investor – possibly accompanied by relevant PMs. However, even with these it is likely that the emphasis is on 'hot' topics such as remuneration and succession planning, with a focus on short term actions, rather than genuinely strategic matters and board effectiveness.

Crowding out – short term considerations dominate

When we consider the balance of the four dialogues the reality seems to be that the major focus is on the short term Execution/Transactional discussions, with slightly less but still a significant focus on the longer term Execution/Strategic dialogues. Most companies that we consulted estimated that they spend 45% to 70% of their time on the former and something like 20% to 45% of their time on the later. This is based on a small number of observations, but they were remarkably consistent in the overall pattern of how they thought their company's time was allocated.

	Transactional/Short term	Strategic/Medium - Long term
Governance	2% to 20%	1% to 7%
Execution	45% to 70%	20% to 45%

Figure 5 Indicative time allocation by companies to the Four Dialogues

This leaves relatively little time for the Governance dialogues, which are also generally thought to be more biased to the short term Transactional discussions. The companies indicated that between 2% and 20% of their time was spent on Governance /Transactional matters, and only 1% to 7% on Governance/Strategic dialogues.

Overall the view is that the Execution dialogue is efficient well managed, whilst the Governance dialogues are somewhat lagging in quality and effectiveness.

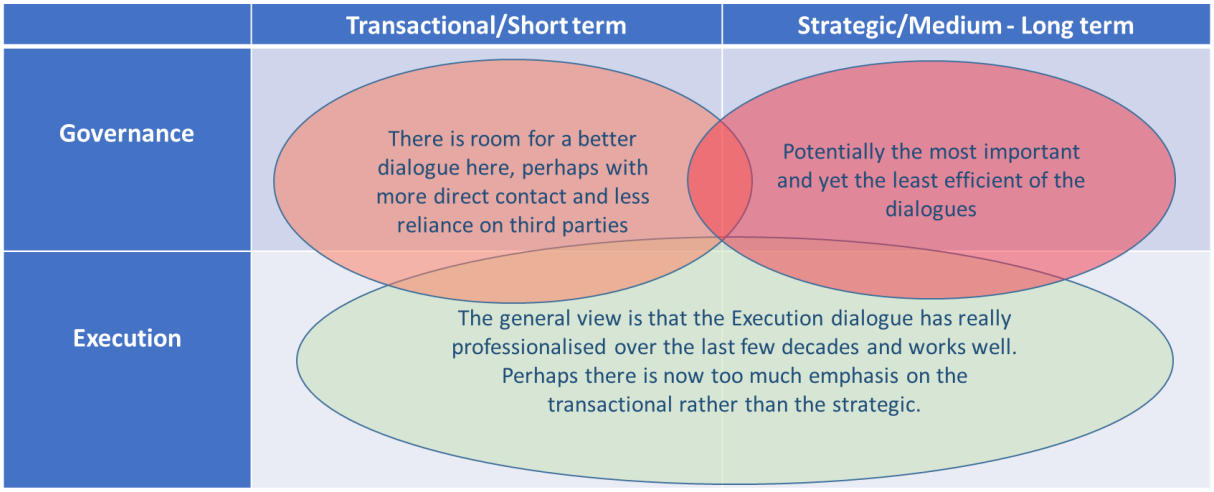


Figure 6 The effectiveness of the different dialogues

The net result of this is that the amount of time and effort spent on the Execution dialogues is crowding out the Governance dialogues, particularly the longer term, strategic dialogue that should

be happening between investors and Boards. Given the supposed focus on stewardship and the role of the Directors in running the company for the long term, acting as the elected agents of the investors, this may seem surprising, or at least sub-optimal.

One possible explanation for this is that the Execution dialogues are more closely aligned to how investors value companies. The content of the discussions directly drives valuation models and therefore buy/sell decisions and share values.

On the other hand, therefore, the Governance dialogues are possibly too far removed from the valuation process and so not so strongly grounded. The result of this is that the content of the discussions is not so well defined and the discussions themselves are not taken so seriously.

Proposed Actions

What could be done?

In considering what might be appropriate to improve the nature of engagement between investors and companies on Governance, there are perhaps two key points to address arising from this research:

1. Do you believe that good Governance does, or should, add value? This is important, as if your position is that there is only downside from bad Governance then it would imply a very different approach – you would only engage when there is, or you believe there is, an issue. If you believe that there is an upside, then you should be willing to invest in identifying and evaluating it.

2. Do you recognise the 'Four Dialogues' model? If you see the Four Dialogues as a useful tool for analysing and understanding the ways in which companies and investors engage, it can be used to help manage time and resources more effectively to optimise the outcome for all parties.

Assuming that the response to those two questions is positive, then investors and companies could consider how to adapt the way that they interact in order to drive a more efficient set of dialogues to enable the investors to better evaluate the company from a long term, investment return point of view and to exercise their stewardship responsibilities optimally.

Investors – potential actions to consider

- Commit to moving the balance away from short term and execution focussed dialogues
  - Less quarterly modelling meetings; less reliance on ESG ratings and proxy agents
  - More, regular meetings with Chairs and NEDs to understand how governance works and how effective it is
  - Clearer alignment and integration of their internal views of a company
  - This may mean adding resources or redeploying them from other short term, executional activities

- Be clear about how Governance factors are integrated into the investment decision and stewardship responsibilities
  - Explain what information they therefore require, preferably in an objective, thematic sense, rather than a checklist.
  - Particular help on how they can understand the effectiveness of the Board and its Governance would be highly beneficial
  - Actively engage with the 'comply or explain' approach, rather than a mechanistic application of checklists. Greater clarity on how ratings information is used would reassure companies and enable them to focus their efforts appropriately.

- A commitment to a regular, ongoing dialogue on strategic, long term Governance

- This might best be separated from the formality of the AGM and should involve the Chairman and other key Non-Executive Directors rather than the company secretary and executive management.
- A 'joined-up' internal approach where Governance specialists work closely with the Portfolio Managers and other analysts so that the company receives a consistent message and the voting follows.

- The quality of the dialogue would be improved by personal interaction which provides better context to the essential facts.

- Exercise stronger stewardship through communicating their views on the company and the key issues that they are concerned about to the company, beyond AGM voting

> *'Investors need to meet companies to avoid box-ticking.'*
> *Global investor*

Clarifying the role of ESG ratings and intermediaries

The proliferation of ESG raters and how they gather information from companies, is increasingly an issue and a concern for companies. It is a rapidly evolving market that can be confusing. Possible improvements might include:

- A generally accepted data set – like a report and accounts
  - So that companies know what to disclose and users have a base data set to access and rely on
- Third party raters could also gather and use the data
  - The company would not be obliged to complete surveys
- A preferred set of raters would emerge that investors and companies could rely on
  - Akin to the sell-side analysts that support the Execution dialogues
- Governance engagement between investors and companies can then be informed by more insightful analysis
  - Discussions might then be less reliant on the check-list approach

Companies could be pro-active in building Governance engagement

Given that there is clearly a trend towards greater engagement on Governance matters, the Board should take active ownership of Governance and its communication. Even if they anticipate a weak response, it may be good to start to build relationships with the right investors and to run a programme of relevant events. Even if the initial response is underwhelming it may start to build

momentum and experience, particularly with the more advanced investors. The best time to build a reputation is whilst things are going well.

Some initial thoughts on building Governance engagement:

- Taking active ownership of Governance and its communication
    - Ensure appropriate and aligned disclosures are available and easily accessed
    - Identify key people and clarify their roles in communicating Governance
    - Decide on an annual or three year programme and review it regularly

- Identify large shareholders and their key Governance contacts
    - Build relationships with them as you would with a sector analyst or PM
    - Ask them what information they want and how they use it, which other information sources they use

- Identify key ESG raters and their key contacts for your company
    - Get to know them and build relationships
    - Have a policy on disclosure and ensure the info is available, but the workload is manageable
    - Review and challenge their reports and recommendations

- Be proactive
    - Offer regular Governance meetings to key investors; include the sector analyst and PMs as well as Governance contacts
    - Group meetings are very efficient and an annual or bi-annual meeting should be at the heart of the programme
    - You might also consider some 1-1s for large investors, at least offer
    - Try to avoid AGM season as investors will be busy and voting may dominate any meeting

- Face to face contact builds credibility and confidence
    - Build reputation before there is a problem; you should then have more goodwill and time to address it.

- Internal alignment
    - Ensure the IRO and Company Secretary are close; also involve media teams and senior management
    - The IRO should have an open line to the Chair and regularly attend Board meetings

- The Board should seek independent, objective feedback on Governance and its communication
    - A regular perception study should evaluate the views of stakeholders and be reported to the Board
    - Independent advice for the Board may be appropriate to avoid the risk of internal silos or agendas

Governance

A Practical Review of how

Investors and Companies Engage

Prepared for

THE INVESTOR FORUM

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