

REVIEW 2019



THE INVESTOR FORUM

## WHO ARE WE?

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

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## WHAT DO WE DO?

The Forum helps investors to work collectively to escalate material issues with the Boards of UK-listed companies.

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## WHY WE DO THIS?

To help build and restore trust between companies and their shareholders.

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## HOW DO WE DO IT?

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

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## WHAT IS THE OUTCOME?

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

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## OUR MEMBERS



ADELPHI



BLACKROCK



BP Investment Management

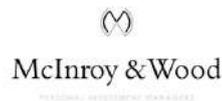


generation\_\_\_\_\_



Janus Henderson GROUP PLC

J.P.Morgan Asset Management



OU endowment management

OWNERSHIP CAPITAL Long-Horizon Investing



Schroders



TROY ASSET MANAGEMENT



WELLINGTON MANAGEMENT®

<sup>1</sup> One Member has opted to remain anonymous

# KEY MESSAGES

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## THE INVESTOR FORUM IS

### FOCUSED:

#### WE SUPPORT INCREASED STEWARDSHIP EXPECTATIONS

It has never been more important for institutional investors to focus on creating sustainable long-term value.

→ *To learn how the Investor Forum is responding to the challenge of a new stewardship agenda read the Executive Director's Review.*

### PRACTICAL:

#### WE WORK TOGETHER TO ESCALATE MATERIAL ISSUES

Since inception, we have led collective engagements with 32 companies, and undertaken 12 Stewardship 360 projects.

→ *To learn about our engagement record in 2019 read the Activities Review.*

### IMPACTFUL:

#### WE DELIVER AN ESSENTIAL STEWARDSHIP CAPABILITY FOR MEMBERS

We identify the foundations for stewardship, the value of engagement and discuss the lessons that we have learned.

→ *To understand more read the Stewardship Review.*

### UNIQUE:

#### WE ARE A NOT-FOR-PROFIT CATALYST FOR COLLECTIVE ENGAGEMENT

Inspired by the Kay Review, the Forum is staffed by experienced practitioners and funded by 50 Members.

→ *To find out how the model works read the Governance and Operations Review.*

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The Investor Forum supports the principles of the FRC's Stewardship Code. The index at the back of this Review maps how the Forum helps its Members to meet the standards set in the new Code.

## CHAIRMAN'S INTRODUCTION



**Simon Fraser**  
Chairman  
29 January 2020

During 2019 “stewardship” has moved centre stage for all market participants. John Kay’s recommendations from his review of UK equity markets and long-term decision making are even more relevant now than they were back in 2012.

Stewardship has been much discussed in the last year or two:

- Policy makers have completed a series of reviews and revised legislation and codes;
- Asset owners have increased the focus on these issues in the mandates which they award; and
- Asset managers are re-designing investment approaches to meet client interest in ESG factors.

In the US, Japan, Europe and the UK the debate on the role of business in solving societies biggest problems has intensified enormously. It has become widely accepted that companies and their shareholders have a responsibility to all their stakeholders. They must ensure they have a sustainable business model with a clear purpose that works for shareholders, customers, employees and the communities in which they are working over the long-term.

Asset owners and society are taking a much more active role in challenging asset managers and are looking for greater demonstration of materially enhanced stewardship capabilities. As the focus of society shifts to raise important questions about climate and inequality, the pace of change will increase still further.

Much has also changed in the investment management industry – fee pressure has intensified, MiFID II is having a profound impact on business models and the demands placed on stewardship teams have increased significantly. While there is evidence of encouraging progress, and resources are being shifted into stewardship activities, much still needs to be done to join up the investment chain.

During 2019 the FRC launched its significantly revised Stewardship Code and the FCA introduced new

requirements to implement SRD II. So there is now an imperative for shareholders to focus more on outcomes as well as increase transparency around their stewardship activities.

Having had the privilege of sitting on both the Kingman and Brydon Reviews’ advisory groups, I have had the opportunity to reflect on regulatory perceptions and the way in which expectations of investors are growing. The Investor Forum offers a key vantage point to see how stewardship is developing across the industry.

**It is apparent that there is further to go to create meaningful long-term value through the stewardship process.**

Most firms are making considerable progress in integrating stewardship into the heart of their investment decision making process and are investing heavily in their ESG initiatives. However, it is apparent that there is further to go to create meaningful long-term value through the stewardship process. This is likely to require further evolution in the style of stewardship and in particular a focus not just on activity but outcomes.

There is now general acceptance that company boards have to become better stewards of businesses and that asset managers and owners have to become more effective stewards of the capital entrusted to them by their clients and beneficiaries. But there is still a major challenge as to how to do this in the most constructive way. As John Kay pointed out, it requires a form of long-term engagement “which is most commonly positive and supportive, and not merely critical.”

This step-change in the responsibilities and expectations of both boards and shareholders creates a challenge for investors, at a time when margins are under pressure, and for companies, who have to manage themselves with demonstrable regard for multiple stakeholders. The purpose and objectives of the Forum laid out at our inception in 2014 are even more relevant now than they were then. Our focus on collective engagement provides important evidence of investor activity and outcomes, as required by the new Stewardship Code.

## CHAIRMAN'S INTRODUCTION

### Board Developments

We are very pleased to have welcomed Anne Marie Fleurbaaij and Luba Nikulina to the board during 2019. Together they bring considerable experience of working with asset owners directly, which is an area where we want to gain greater exposure.

The board has spent considerable time during 2019 focusing on the strategic direction of the Forum. Given the rapidly evolving stewardship landscape, it is critical that we continue to review and develop our approach around our core collective engagement activities. We are grateful to the board for the challenge, support and engagement that we have had on our journey and the help that they have given us in developing our forward strategy.

On behalf of the board, I also would like to thank the growing executive team for their hard work and commitment during 2019. From a standing start in 2014 the Forum has developed into an effective platform with fifty members and an enviable track record of collective engagement.

### Outlook

Given the rapidly evolving stewardship environment described above, the relevance and importance of the Investor Forum in facilitating a longer-term strategic dialogue between boards and their shareholders is greater than ever.

The Investor Forum will continue to develop and embed its unique engagement approach into the investment landscape. Our Collective Engagement Framework provides a safe and secure environment in which members can operate. It helps investors to fulfil their engagement objectives and focus on the impact of their engagements which are key to delivery of their increased stewardship responsibilities.

We will also rise to the challenge of helping to promote well-functioning markets. This requires a relentless focus on the long-term, the further enhancement of stewardship activities and the preservation of the highest standards throughout all market activities. At the same time, the system needs to avoid becoming overly dependent on inflexible policies and box ticking if we are to encourage companies to maintain and seek premium listings in the UK.

In 2020 we will likely see important steps to implement the recommendations of the Kingman and the Brydon reviews. All market participants have an important role to play in delivering outcomes that respond to the work of the reviews, and to inspire the confidence of society. We need to work together as companies and investors in pursuit of sustainable long-term value.

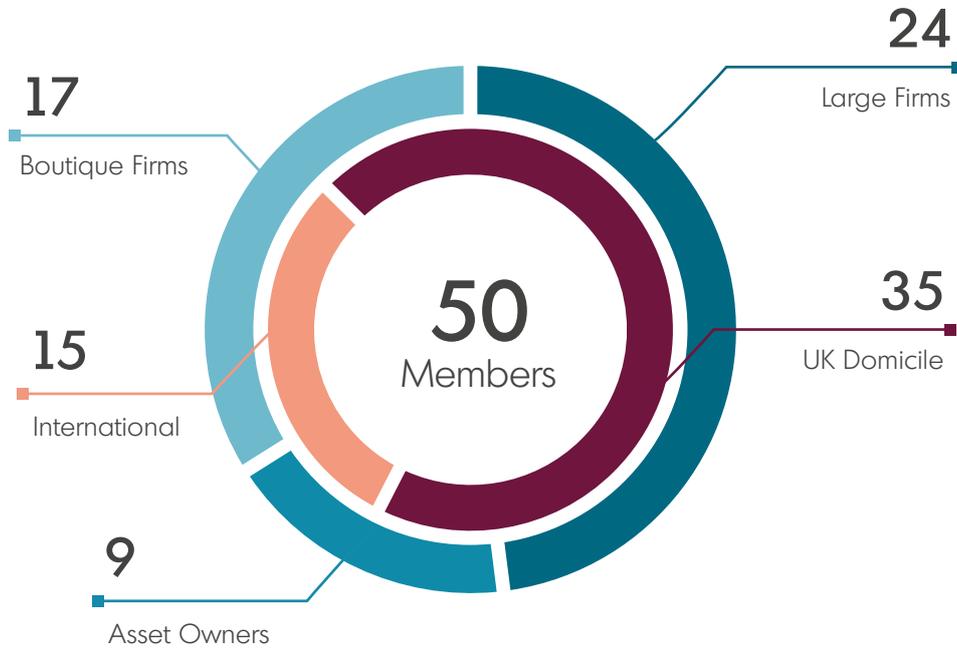
The benefits of our approach continue to be recognised by practitioners and this is reflected in the healthy growth of our membership and the number of engagements we have been involved in during the year. With the introduction of the new Stewardship Code during 2020, we expect the interest in collective engagement through the Forum to grow further.

Trust in business is still very stretched so there is much for both investors and companies to do in order to demonstrate that business is being managed for the benefit of all stakeholders. The key to developing sustainable long-term value is not whether shareholders engage, but how they do it. We believe that providing a consistent message with constructive solutions will be critical for success and we will therefore continue to approach all our engagements in the way John Kay described in his review.

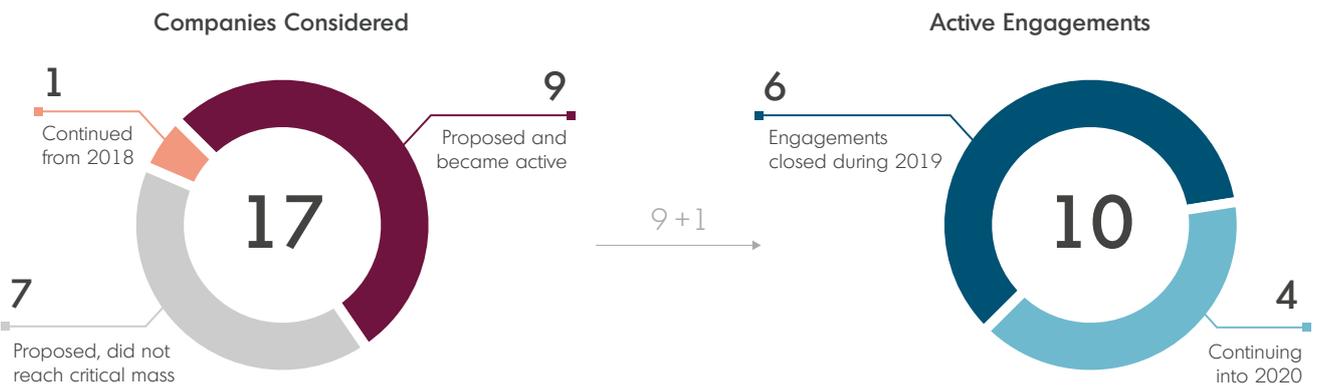
**Simon Fraser**  
Chairman

# FORUM SNAPSHOT

## Membership



## Engagements 2019

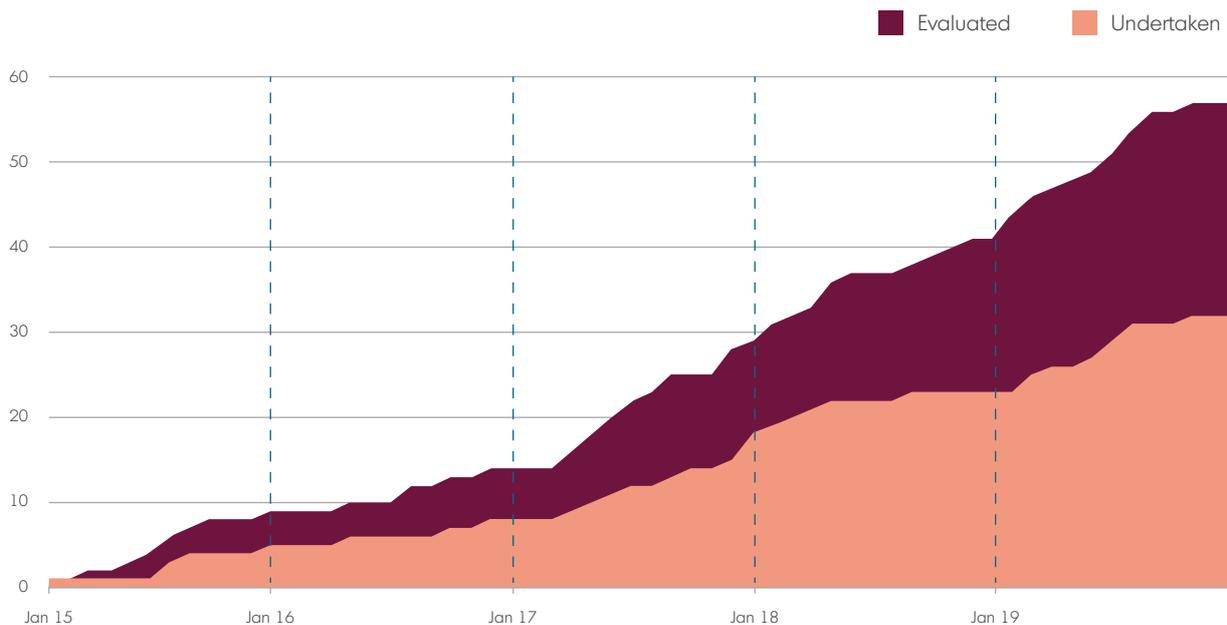


# FORUM SNAPSHOT

## 2019 Collective Engagement Dashboard

	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational Performance	Management Information	Reporting & Communication
FirstGroup	✓	✓	✓	✓				✓
GVC		✓		✓				
Imperial Brands	✓	✓	✓	✓		✓		✓
Inmarsat		✓		✓		✓		
Safestore		✓		✓				✓
Vodafone	✓	✓	✓	✓		✓		

## Collective Engagement Activity Since Inception



## Engagement Participation in 2019

In each full engagement



6 to 19  
Range of Participants



12% to 35%  
Market Cap of Company Represented



33  
Investors Involved



105  
Bilateral Conversations Taken Place

## EXECUTIVE DIRECTOR REVIEW



**Andy Griffiths**  
Executive Director  
29 January 2020

The Investor Forum has established a unique model for investors to work collectively to escalate material issues with Boards of UK-listed companies. These can be financial, strategic, governance, environmental or social in nature - the key is that the issue is material and merits engagement with the board in a collective fashion.

Our not-for-profit model has a clear and entirely practical focus which is supported by 50 asset managers and asset owners. We have a team of eight investment professionals with an average of 28 years experience and draw on the resources of members that own more than 30% of the FTSE All Share.

### Collective Engagement

The focus of the Forum is to provide a catalyst for investors to engage collectively to deliver change.

In last year's review we discussed what makes for successful engagement. During 2019, we have developed a framework of six critical success factors to evaluate the effectiveness of the different types of engagement activity. We believe that the granularity of this approach will help asset owners and asset managers prioritise and evaluate engagement activities, develop a full suite of stewardship capabilities and increase the impact of engagement outcomes.

The new Stewardship Code draws a helpful distinction between engagement with an issuer to achieve a specific change and engagement as part of a coalition of wider stakeholders to engage on a thematic issue. For the Investor Forum:

- Our core focus is collective engagement with an individual company to achieve a specific change, as evidenced in the five-year public track record.
- Through our Stewardship 360 programme we seek to extend practical insights gained from our engagement work to respond to market failures and environmental and social challenges.

Ultimately, whatever the focus of engagement, its effectiveness will be judged through the impact on the sustainable long-term value of the company.

### Collective engagement is an essential stewardship capability.

We have invested a significant amount of time responding to industry consultations in recent years, and so to provide practical insights into, and building blocks for, stewardship activity we published four white papers in 2019:

- [Barriers to engagement](#)
- [The Four Dialogues: How investors and companies engage on Governance](#)
- [Defining Stewardship](#)
- [Collective Engagement: An effective stewardship capability](#)

The extensive experience of the team, the diverse mix of skills within our Board and the influence of our Members combine to give the Investor Forum an unrivalled ability to engage with the Boards of UK companies to resolve issues. This ability to facilitate dialogue has significantly enhanced the effectiveness of our collective engagement activity.

### Engagement Activities

Since we began engaging in January 2015 our members have raised 57 engagement candidates and we have actively engaged with the Boards of 32 UK-listed companies. We have reported the outcomes of each of these engagements, building a unique public record that demonstrates how our members have identified material concerns, escalated those concerns and worked collaboratively with other investors to seek specific change. This record provides objective evidence of a key stewardship capability which will be formally assessed for signatories to the 2020 Stewardship Code.

## EXECUTIVE DIRECTOR REVIEW

We initiated a further nine collective engagements in 2019 and completed six engagements, carrying four over into 2020.

Two particular themes were evident:

- Firstly, we saw three examples where the Senior Independent Director took a very active role in engagement and in delivering change (First Group, Imperial, Safestore).
- Secondly, in six of the nine engagements the focus was on the skills, characteristics and experience which investors wanted to see in a new Chair and the priorities for the incoming Chair.

**More focus is required to ensure clarity between companies and their investors of the priorities in the succession process. We see too many cases where the investor perspective has been lost.**

### The Importance of Dialogue

Facilitating dialogue is a key objective for the Forum. In each of the last three years, we have organised a series of Chair/Senior Investor breakfasts that have helped us to better understand the nature of the conversations between companies and investors.

It is clear that the discussion around Board tables, and within companies, is much broader than that between investors and companies. We have taken practical steps to encourage a more holistic perspective in 2019. The “Four Dialogues” research confirmed that the current interaction between companies and investors is dominated by an analysis of short-term trends and is primarily focused on financial considerations.

There is much to be done by companies and investors to improve the state of the relationship. This is important, and our experience supports the conclusions of the 2019 Edelman Trust Barometer that found that 86% of investors cited trust in a company’s Board of Directors as essential before making or recommending an investment.

We believe that ‘Stewardship & Strategy Forums’ are one way in which companies can help investors gain confidence in the effectiveness of a Board, but we have not had the impact in promoting this concept that we would have liked. While we have had a number of individual successes over the last five years, there remains an opportunity for companies to do much more to improve the quality of their governance events.

We will continue to share the lessons learned and examples of best practice that we have seen and encourage companies to hold such events.

To increase the Forum’s impact we will, however, focus our efforts to enhance dialogue on:

- Group meetings to address company-specific issues; and
- ‘Summits’ to address sector-wide issues.

### Looking Forward

Perhaps the most challenging aspect of the 2020 Stewardship Code is Principle 4 which requires signatories to identify and respond to market-wide and systemic risks.

In its short history, the Investor Forum has made an important contribution in this regard. Our Collective Engagement Framework provides a crucial underpinning to encourage institutions to work together collectively to escalate issues in a safe and sound approach. More recently, our work on ADR voting issues has established a new best practice around the issues of auto-proxy and vote solicitation.

*Continued >>>*

## EXECUTIVE DIRECTOR REVIEW

However, at a much more fundamental level, there is no doubt that the effectiveness of public markets is being questioned:

- Returns from the UK equity market over the last five years have been disappointing in comparison to international markets;
- There have been a number of high profile company failures;
- We continue to see a reduction in the number of UK listed companies; and
- A hollowing out of research providers is significantly reducing the availability of comprehensive research on all but the largest of companies.

In parallel, the continued rise of private market investments is striking, and many Chairs say they would be “better off” managing private companies given the constraints that the public markets impose. It is crucial that investors find the right balance between stewardship activity which effectively “holds companies to account” and any perception of a prescriptive application of proxy guidelines. This remains the number one issue that frustrates Chairs.

### **Investors and companies need to make the positive case for public markets - which now has as much to do with the democratisation of savings as the provision of growth capital.**

Alongside the opportunity for citizens to share in the benefits of successful companies through savings products, there is no doubt that the scrutiny which public markets bring to bear can play an important role in increasing societal confidence in business.

### **Conclusions**

As we enter 2020, companies and investors are now operating with refreshed Corporate Governance and Stewardship Codes. If market participants step up to deliver and demonstrate effective outcomes - through both their actions and their communications - regulators and supervisors can focus on incentivising positive behaviour rather than enforcing prescribed rules. The focus must be on creating a virtuous circle that encourages and supports valuable and sustainable companies.

There is an emerging consensus between policymakers, academics and investment practitioners around the importance of purpose and the value of stewardship. These related concepts offer a route for investors and companies to re-gain the confidence of their clients and beneficiaries and, in turn, the confidence of broader society.

We will continue to develop and share practical insights to add to the understanding of what makes effective engagement, and to contribute to the promotion of well-functioning markets. Given our practical focus, in this report we have explored a number of issues that we believe address key elements of the reviewed Stewardship Code.

The stewardship agenda has never been more important and investors need to figure out how they will contribute to the change required to address the critical issues that are dividing our society and challenging our planet. The time for talking is over – investors are being asked to rise to the challenge and play their part in delivering solutions.

As we look back on 2019, we remember the outstanding contribution that Peter Montagnon made to governance and stewardship over many years, and look to his example to guide us as we seek to contribute to the delivery of more sustainable long-term financial outcomes for investors in UK companies.

Ultimately people make a difference, and I am enormously thankful to our Members, the Board of Directors, the Investor Forum team and our Legal Panel who have done so much to create an effective model of collective engagement over the last five years.

**Andy Griffiths**  
Executive Director

# 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 14-23)

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

### Company Specific Collective Engagements

### Stewardship Forums (Read more on pages 28-29)

- Convene parties from across the investment chain;
- Identify issues where change is needed;
- Develop practical solutions to enhance dialogue

**Examples include:**

- Chair / Investor Breakfast series
- 'Stewardship Summit' – UK Banks Stewardship & Strategy Forums
- IF-facilitated Member meetings with companies and other stakeholders.

### Stewardship Forums

### Stewardship 360

### Stewardship 360

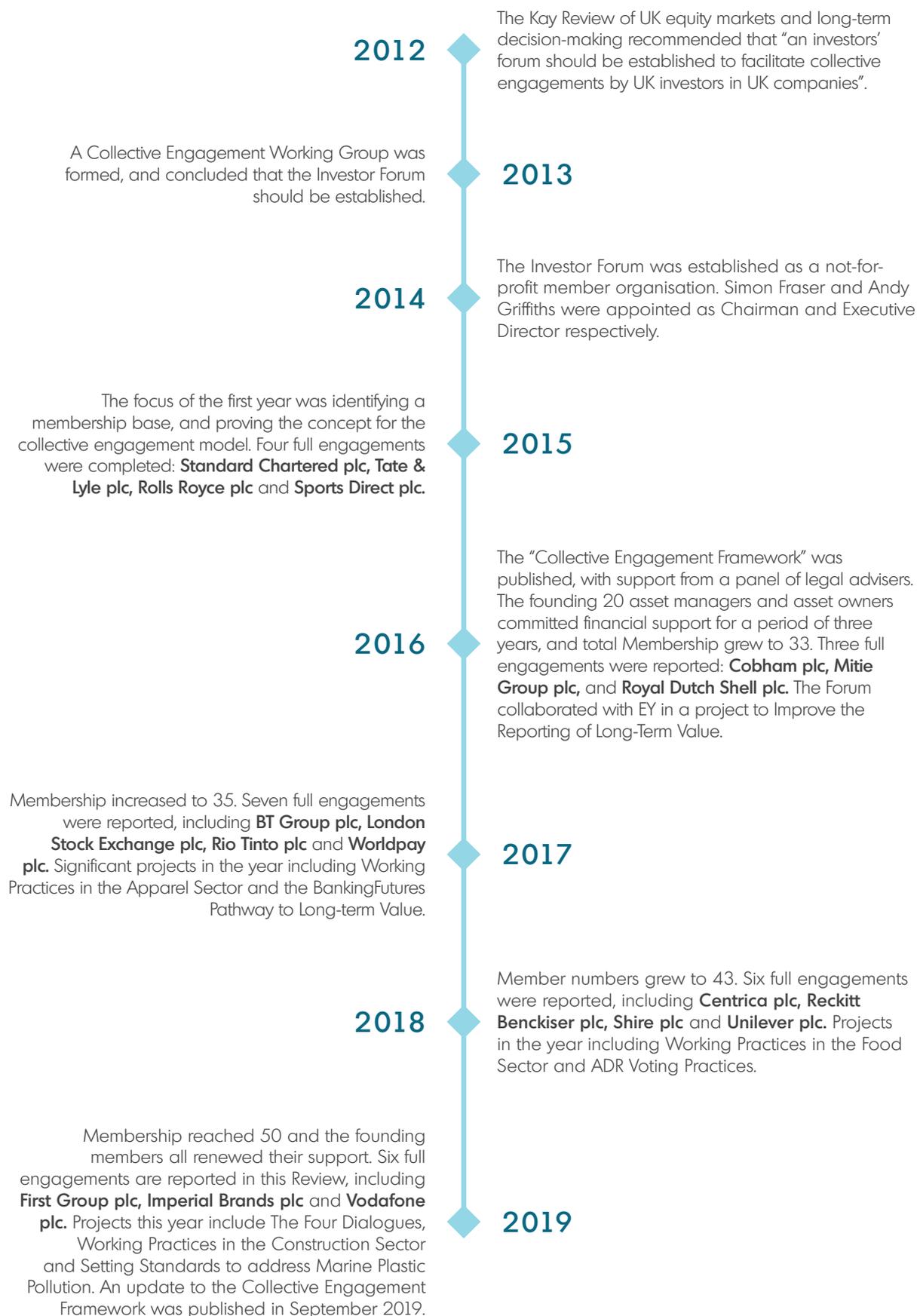
(Read more on pages 24-27)

- Investigate issues that may arise in the course of engagements which impact companies and the environment in which they operate,
- Respond to market failures or broader environmental or social challenges, with Member support;
- Host events that help to position stewardship at the heart of investment decision-making;
- Organise workshops and meetings to share best practice and develop investor understanding of material issues

**Examples include:**

- Working practices in the apparel, food retail and construction sectors;
- Four Dialogues – a framework to understand the dialogue between investors and companies;
- Setting Standards to address Marine Plastic Pollution.

## BACKGROUND TO THE INVESTOR FORUM





# ACTIVITIES REVIEW

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- *Collective Engagement Report*
- *Stewardship 360 Projects*
- *Facilitating Dialogue*
- *Promoting Well-Functioning Markets*



# COLLECTIVE ENGAGEMENT REPORT

Facilitating collective engagement is the primary objective of the Forum. The Collective Engagement Framework and the Forum’s approach are now valued by leading investors as a way to escalate and resolve complex problems.

Over 5 years, Members have asked the Forum to investigate 57 company situations for collective engagement. In many cases, investors will already have devoted time and resource engaging directly with the companies, and they approach the Forum to escalate an issue when their individual efforts have not achieved the desired outcomes.

In the pages that follow we 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.

**The Collective Engagement Dashboard for 2019 again shows the wide range of considerations addressed, confirming the need for a bespoke strategy and clear objectives in each case. During 2019, it was notable that corporate governance, and particularly leadership and succession, were dominant themes in every engagement. Most likely this reflected the impact of the new Corporate Governance code and, specifically, the stricter focus on Director tenure.**

## The Stewardship Code 2020

While the substance of our reporting remains consistent with previous years, in looking back at 2019 we have taken the opportunity to review our engagement work through the lens of the new Stewardship Code. This practical focus and public record of collective engagement provides an early signpost for Members as they begin preparations to report against the new Code.

We provide a description of our engagement activities and offer case studies of our collective engagement work to demonstrate outcomes. In each of the case studies we have considered:

- The basis of selection
- Engagement objectives
- Methods of engagement
- Outcomes
- Lessons learned

## Reporting

Through the creation of the Investor Forum, the investment community has invested in an escalation mechanism to engage in the most complex situations. The intensive nature of these collective engagements represents a market-led solution to enhance the effectiveness of stewardship activities. It is a unique and constructive stewardship tool.

Disclosure helps demonstrate the seriousness with which our Members take their stewardship responsibilities. This report includes case studies which offer practical lessons learned from our work. We believe these insights can be used to enhance the effectiveness of future engagement activity.

Discretion continues to define our preferred approach, allowing time to analyse the underlying causes behind problems, rebuild confidence and trust between companies and investors, and identify long-term solutions. We are committed to reporting and to identify on all our activities once sensitivities have reduced so that all stakeholders can draw lessons and improve best practice.

We have included details of the 6 collective engagements which were closed in 2019. The new Stewardship Code calls for disclosing progress of ongoing activity, but we remain to be persuaded of the value of naming active company engagements. Our judgement is that the effectiveness of the engagement would not have been helped by public disclosure midway through the process. We have therefore continued with our policy of not reporting details of the 4 engagements that are currently still active.

At the end of the section we have also highlighted 10 key lessons that we have learned over the last five years. In 2019, we used these lessons learned to identify critical success factors for engagement and collaboration, and we discuss these in more detail in the Stewardship Review section.

# COLLECTIVE ENGAGEMENT REPORT

## Activities

In 2019, 11 Investor Forum Members brought forward 16 companies as candidates for collective engagement, 9 of which proceeded to full engagements. We completed 6 engagements - 5 of these were initiated in the year and one was carried over from 2018. 4 cases were ongoing at year end. Of the 7 cases which were proposed in 2019 but did not proceed:

- 3 were small cap companies where critical mass could not be established amongst the membership base;
- 1 involved a fast moving situation where investors decided to focus on individual engagement; and
- 3 had very narrow objectives which did not garner wider support.

During the year, the Forum:

- Worked on engagements with 33 institutional investors; and
- Held 105 detailed bilateral conversations (defined as ongoing dialogue on a single company engagement with an investment institution) to inform these engagements.

The Collective Engagement platform is now well established and there is scope for Members to make greater use of this common resource, particularly given the focus on outcomes in the new Stewardship code.

## 2019 Collective Engagement Dashboard

	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational Performance	Management Information	Reporting & Communication
FirstGroup	✓	✓	✓	✓				✓
GVC		✓		✓				
Imperial Brands	✓	✓	✓	✓		✓		✓
Inmarsat		✓		✓		✓		
Safestore		✓		✓				✓
Vodafone	✓	✓	✓	✓		✓		

# COLLECTIVE ENGAGEMENT REPORT

## Engagement Process



1. The Forum will only initiate a collective engagement if it is proposed by a Member, meets the criteria, as set out in the Collective Engagement Framework, and there is support from a critical mass of shareholders.
2. In the process of formulating the engagement strategy, the Forum explores all perspectives, including those of the credit analysts and ESG teams at Member firms in order to agree clear objectives. Once participants have confirmed support for the proposed engagement strategy, the Forum progresses to contacting the company.
3. What happens next depends on individual circumstances. In the majority of cases, the Investor Forum writes to the Chairman or SID to set out the collective concerns and calls for action. Typically, the Forum would then meet with the Chair, SID or both, along with other company representatives and Board members.

The Forum recognises that change cannot be delivered immediately, and that the

company needs to follow due process. Therefore, engagements may involve a period of "monitoring developments" - waiting for the outcome of an appointment process, the conclusions of a review, or for the next set of results to assess the company's response. The Forum maintains contact with participants, keeps in touch with the company to provide regular input, and re-consults with participants as circumstances change.

In the case of Imperial Brands plc, for example, the Forum has had three distinct phases of engagement, with different objectives and targeted outcomes.

4. The Forum consults Members before closing an engagement, and then share the Closing Note, which evaluates outcomes against objectives. The Forum seeks feedback from all participants in order to evaluate the value they gained from the process. A high-level summary of the lessons learned is given on page 23.

<b>Company:</b> FIRSTGROUP 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: June 19 – Dec 19		Size: FTSE 250		Number of Participants: 8		% of Company: 25%		

**Basis of Selection**

**Why did the Forum engage?**

- An activist called a General Meeting (June 25th), and the SID reached out to the Forum during this process to seek input.
- Following the General Meeting, the Chair announced his intention to step down at the conclusion of the Annual General meeting (AGM) with the SID to become interim Chair at that point.
- Following the AGM (July 25th) Members requested a collective engagement to send a clear message on the need for change, outlining the key priorities to restore shareholder confidence and realise group value.

**Objectives**

**What did the Forum engage on?**

- Board effectiveness: Investors wanted to see a quick process to appoint a new Chair and refresh Board composition and skills.
- Succession planning: Investors provided input into the criteria to identify a new Chair, as the skills that this person would bring to the Board were seen as critical for the company to navigate challenging industry dynamics, recover value, refresh the Board and address the unrest in the shareholder base.
- Strategic direction and capital allocation: Investors called for the new Chair to provide an objective assessment to either validate or adapt the Group’s strategic plan. Investors were focused on the need to restructure the portfolio and the resulting implications for group profitability, leverage, pension arrangements, dividend policy and capital return.
- Communication: The Forum was asked to remind the company that coherent and consistent communication was necessary with all stakeholders to rebuild trust and clarify understanding of the challenges that the Group faced.

**Engagement Methods**

**How did the Forum engage?**

- The Investor Forum engaged extensively and constructively with the SID following both the GM and AGM, during the Chair search, and immediately following the Chair appointment. The SID engaged in detailed dialogue with all the largest shareholders throughout this period.
- A new Chair was appointed in August and met with a large number of shareholders, as well as the Forum, within weeks of joining.

**Outcomes**

**What did the engagement achieve?**

- The collective voice provided a clear message on the urgent need for change. It provided clarity on the range of concerns, and amplified the call for action.
- The SID stepped up effectively into the role of interim Chair, took action to refresh the Board and delivered a well-received Chair appointment which avoided an elongated search process.
- Investors were reassured by the qualifications and experience of the new Chair and the commitment to move quickly to address investor concerns.
- The engagement was closed following the resignation of two NEDs and the appointment of a new Chair. Investors will now focus on the actions of the new Chair in response to the concerns which have been clearly communicated.

**Lessons Learned**

**What has wider applicability?**

- A strong and effective SID is needed to step up at times of crisis and can be instrumental in driving change.
- The Forum’s involvement can be helpful in providing a clear message from long-term shareholders at a time of rapid change and when a company faces pressure from an activist investor.

<b>Company:</b> GVC HOLDINGS 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: June 19 – Dec 19		Size: FTSE 250		Number of Participants: 8		% of Company: 35%		

## Basis of Selection

### Why did the Forum engage?

- Engagement participants were all supportive of GVC’s management and business strategy, recognising that the company was performing strongly in its core business.
- However, there was a perceived disconnect between the operational performance and the Board’s effectiveness, particularly given the rapid growth. A number of decisions had impacted GVC’s reputation, leading to a significant share price decline.
- Following individual engagement meetings, Members escalated their concerns and initiated a collective engagement to send a clear message to the Board of shareholder expectations.

## Objectives

### What did the Forum engage on?

- Governance: Whilst recognising positive operational delivery, investors highlighted the need for the company to review and enhance governance structures and processes, to ensure that they were fit-for-purpose for the enlarged group.
- Succession planning: Investors provided input into the criteria for selection of the new Chair.
- Board effectiveness: Investors expressed a desire for the composition and skills of the Board to be reviewed.
- Remuneration: Investors asked the Board to recognise and address concerns regarding remuneration structures, the alignment of remuneration policies with long-term strategic goals, and to enhance communication on these issues.

## Engagement Methods

### How did the Forum engage?

- With the support of 35% of the share register, the Forum wrote to, and met with, the SID to outline these concerns and to discuss the qualities sought in a new Chair.
- The SID also met directly with some of the largest shareholders.
- The Forum requested that, as soon as the new Chair was appointed, meetings be arranged with investors to hear their concerns and listen to their views on future priorities.

## Outcomes

### What did the engagement achieve?

- The timing of the engagement was opportune, ensuring that the company had a clear understanding of investor concerns and priorities in advance of appointing a new Chair.
- The company recognised the need to strengthen the governance architecture and the SID stressed that the company’s approach had begun to evolve following the Ladbrokes Coral acquisition in March 2018.
- The company announced the appointment of a new Chair in November, who has industry and plc experience, which suggests that he will be able to recognise and address the key issues identified.
- Investors are pleased that an experienced Chair has been appointed but it will take time to judge fully the efficacy of such an engagement. The next phase will require the company to deliver on the changes outlined and to convince shareholders it has:
  - Taken appropriate steps to enhance Board effectiveness and Chair oversight; and
  - Reviewed the remuneration policy to address the concerns raised by investors.

## Lessons Learned

### What has wider applicability?

- Engaging early in a selection process can provide clear and constructive input on the qualities and characteristics that investors believe are required.

<b>Company:</b> <b>IMPERIAL BRANDS</b> <b>PLC</b>	Governance (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational Performance	Management Information	Reporting & Communication
	✓	✓	✓	✓		✓		✓
<b>Engagement Period:</b> June 19 - Aug 19; Oct 19 - Dec 19 <b>Size:</b> FTSE 100 <b>Number of Participants:</b> 9 <b>% of Company:</b> 22%								

## Basis of Selection

### Why did the Forum engage?

- The first phase of the engagement with Imperial Brands in 2018 was reported in last year's Review. In February 2019, following the AGM, the company announced a process to appoint a new Chair.
- A second phase of engagement was initiated in June 2019 with a focus on Chair succession, strategic direction and execution. Investors were frustrated with progress against the disposal commitments and the on-going decline in the share price.
- In October 2019, with the Chair appointment still pending, the Group reported a deterioration in operating performance and subsequently announced the departure of the CEO. A third phase of engagement was initiated with a focus on encouraging the NEDs to take decisive action to avoid a prolonged leadership vacuum and to address the long-standing concerns.

## Objectives

### What did the Forum engage on?

- Succession: Investors wished to clearly communicate their expectations that the new Chair should be an agent for positive change, prepared to make timely and, where necessary, tough decisions.
- Strategic direction: Investors wanted to see a fresh assessment of the Group's strategic plans and the capabilities of the management team to deliver outcomes that would recover shareholder value.
- Capital allocation: Investors wanted a focus on the potential to release and reallocate capital, and the resulting implications for the dividend policy, leverage and capital returns.
- Quality of earnings: The company was encouraged to move further to address investor concerns over the extensive use of exceptional items, the quality of earnings, and segmental reporting.

## Engagement Methods

### How did the Forum engage?

- In Phase 2, the Forum engaged constructively with the SID to escalate investor concerns both in writing and in person. The Forum also facilitated a group meeting to provide shareholders with an opportunity to provide input into the Chair selection process, and to discuss wider concerns.
- In Phase 3, following the October trading update, the Forum re-iterated and reinforced investor concerns and the appetite for change, in a letter to the SID in advance of the November results.

## Outcomes

### What did the engagement achieve?

- This was a good example of the SID seeking shareholder input, taking those insights into the Boardroom and catalysing action. The proactive approach of the SID was well-received by shareholders.
- The June group meeting was useful in consolidating and communicating investor views to the SID, and particularly the views of shareholders outside the top 10.
- It was announced in November that the SID would step up to become Chair in January 2020.
- Following the closure of the engagement, the company asked the Forum to organise an additional group meeting, to continue the constructive dialogue with Members.

## Lessons Learned

### What has wider applicability?

- Maintaining a collective pressure on the company to take action on the material issues of Chair succession, strategic delivery and earnings transparency can be helpful in ensuring change.
- Engagements can involve a number of phases, and investors need to wait and see what progress the company can deliver. If frustrations are not addressed, the Forum can re-engage.

<b>Company:</b> INMARSAT 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 19 – Mar 19		Size: FTSE 250		Number of Participants: 7		% of Company: 20%		

### Basis of Selection

#### Why did the Forum engage?

- The Forum facilitated a group meeting with the Chair, SID, CEO and CFO of the company at its head office in December 2018, with an investor-defined agenda covering a number of areas.
- Investors valued the opportunity to engage with the Board and Executive in a series of meetings, allowing them to evaluate strategic direction, governance and execution holistically.
- Concerns remained following the meeting, and a formal engagement was initiated in February 2019.
- In formulating this engagement, investors were mindful of the requirements of the new Corporate Governance Code, with its stricter rules about Chair tenure and independence.

### Objectives

#### What did the Forum engage on?

- Chair Succession: Investors wished to see an accelerated process to appoint a new independent Chair. They believed that this would be in the best long-term interests of the company.
- Operational performance: Investors felt the company needed to be better at managing expectations.

### Engagement Methods

#### How did the Forum engage?

- The Forum spoke to the Chair and wrote to the Chair and SID in March 2019 to raise these concerns with the Board and engaged with the company secretary.

### Outcomes

#### What did the engagement achieve?

- The engagement objective was defined around Chair succession. The company responded to the engagement and addressed the issue of succession in its Annual Report which was published at the end of March and made various statements regarding the process for seeking a new Chair.
- In mid-March, the company received a bid approach. Consideration of the offer superseded the objectives of the initial engagement and the engagement was paused until the outcome of the offer was determined.
- There was no appetite for continued collective engagement in light of the corporate action.

### Lessons Learned

#### What has wider applicability?

- A group meeting with the Board and Executives can be helpful to address rising concerns before a full engagement is considered appropriate.
- Succession of a long-serving Chair who has been integral to the success of a company can be challenging to navigate, especially given the requirements of the new Corporate Governance Code.
- Ultimately, the company recommended, and shareholders accepted, a private equity-backed deal to take the company private. While a deal delivered a partial recovery in the share price, it also resulted in the de-listing of a company which may have an attractive long-term growth potential.

<b>Company:</b> SAFESTORE HOLDINGS 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: Aug 18 – Dec 19		Size: FTSE 250		Number of Participants: 6		% of Company: 24%		

**Basis of Selection**

**Why did the Forum engage?**

- An impasse was reached following repeated significant investor votes against the remuneration policy and directors. At the 2018 AGM, 5 resolutions received votes against of more than 20%, which were recorded on the Investment Association register.
- Safestore has a long track record of strong operational performance which has generated positive investment returns. However, concerns had mounted regarding the effective alignment between incentive plans, long-term strategic goals and shareholder interests.
- There was particular concern over board challenge and effectiveness. Clearer succession planning was felt necessary to assist in building investor confidence in the long-term success of the company.
- While the executive team had a strong relationship with large shareholders, the company had no dedicated internal IR team and an interim company secretary at the time of the engagement.

**Objectives**

**What did the Forum engage on?**

- Board effectiveness: Investors were concerned over Board effectiveness and the Board’s ability to effectively challenge the executive.
- Succession: Investors encouraged the Board to provide greater clarity around succession.
- Remuneration: There were ongoing concerns over remuneration that needed to be addressed, following an unsatisfactory consultation process.

**Engagement Methods**

**How did the Forum engage?**

- The SID engaged constructively with the Forum from the first meeting in December 2018. The engagement helped the SID better understand investor concerns and the need for improved communication on those issues.
- The Forum discussed steps that the Board could take to demonstrate its understanding of investor concerns, and the need to be proactive ahead of the AGM. The Forum also highlighted the qualities that participants were seeking in the selection of a new Chair.

- Following a joint meeting alongside the Investment Association in February 2019, the Forum wrote to the SID to emphasise participants’ focus on the crucial role that the SID needed to perform in the Chair selection process. Further, the Forum stressed the need for the Board to understand the necessity of a heightened focus on governance, and for the SID to create a greater alignment between the expectations of the Board, the executive and the shareholders.

**Outcomes**

**What did the engagement achieve?**

- The new Chair has considerable experience running divisions of international corporations, chairing private equity portfolio companies and high growth international businesses. The Forum met him following the announcement of his appointment, reinforced investor priorities and encouraged him to meet with investors in early 2020, following publication of the annual results.
- With the appointment of a new Chair in November, the engagement was closed.

**Lessons Learned**

**What has wider applicability?**

- This engagement was paused for much of 2019, awaiting the appointment of a new Chair. It is difficult to balance a lengthy monitoring period with the need for a company to complete an external recruitment process. On balance, Members felt it more helpful to keep the engagement open and maintain a dialogue, with the option to raise any emerging issues.
- As companies grow, investing in an internal IR capability to ensure the Board is fully briefed on all shareholder expectations is important.

<b>Company:</b> VODAFONE 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: May 19 – Dec 19		Size: FTSE 100		Number of Participants: 8		% of Company: 25%		

### Basis of Selection

#### Why did the Forum engage?

- Collective engagement was proposed to provide a clear message of investor concern after a credit rating downgrade and cut to the dividend. Investors were frustrated that amid a challenging industry environment the company had not made progress over an extended time period, which had been reflected in a long time decline in the share price.
- Participants felt it was time for the company to build confidence in the investment case, given competitive challenges in several key markets.
- Views were also expressed on the characteristics needed in the new Chair, given the upcoming succession.

### Objectives

#### What did the Forum engage on?

- Strategic plans and capital allocation: Investors wanted the Board to articulate a compelling plan to address the key issues that are most likely to enhance the company's value and to execute decisively.
- Board effectiveness and Chair succession: Investors sought to ensure that the process for Chair selection was grounded in a clear understanding of shareholder perspectives. Investors also called for greater visibility of the NEDs and Committee Chairs, and in particular the Audit & Risk Committee.
- Communication: Given the impact of the unexpected change in dividend policy, investors believed that action was needed to re-build credibility and ensure future support.

### Engagement Methods

#### How did the Forum engage?

- The Forum engaged with the Chair, who felt he had a clear understanding of the priorities of shareholders. The Board and the new Chief Executive were already focused on improving the consistency of the company's commercial performance, and as a result the Chair pushed back on the need for collective engagement.
- The Forum also engaged with the IR Director around the content, structure and participation at the "Meet the Board" investor event held in November 2019.

### Outcomes

#### What did the engagement achieve?

- The Collective Engagement stimulated the company to take a more comprehensive approach to its planned 'Meet the Board' event for institutional, governance and ESG investors at the end of the year. The event covered many of the areas identified in the engagement, addressing many of the material issues relating to Vodafone's licence to operate and other long-term themes.
- Under the new CEO, the company took a number of steps to sharpen delivery, with some early evidence of improvement in operational execution in late 2019. The company also set tangible long-term goals related to its recently defined corporate purpose, and announced portfolio actions to unlock shareholder value.
- The company is confident that it is making progress in identifying Chair candidates through a well-structured process, and that the search criteria are aligned with investor priorities and expectations.

### Lessons Learned

#### What has wider applicability?

- Investor frustration with developments at Vodafone was high in May 2019 with the share price at a 10 year low following the dividend cut. Collective engagement provides a mechanism for investors to express their concerns with the company, even though the engagement itself does not guarantee direct outcomes.
- Vodafone's 'Meet the Board' event was an example of a company making a significant effort to describe its purpose and provide a holistic view of the long-term drivers of value. This type of event provides a valuable opportunity for a cross-section of the shareholder register to meet with Board members.
- In terms of wider applicability, the Forum will evaluate investor appetite for a S-360 Project in 2020 to review issues surrounding 'treating customers fairly' and the regulatory expectations of Ofcom.

## LESSONS LEARNED

**The need to prioritise dialogue on material issues that drive sustainable long-term value has increased – this is the one outcome that unites all stakeholders. The nature of what is material is not defined in narrow financial terms.**

### Insights for the Investor Forum

1. Collective engagements are most effective when they respond to a need for change, have **clear objectives** and identified desired outcomes. Insight, trust, resources, and persistence are all required to deliver impact.
  2. **Clear communication** of the key issues is not always easy. All parties need to listen actively to understand the challenge and the reasons for different perspectives.
  3. We are **accountable** to both engagement participants and companies for professional, open and honest conduct in an engagement, always seeking mutual understanding. **Discretion** is a necessary component during an engagement, to build and maintain trust.
  4. Each engagement needs a **bespoke** approach. Collective engagement can be effective with companies listed on AIM through to the FTSE 100. No two companies are alike and no two engagements are alike.
  5. **Emphasising and reinforcing shareholder concerns** is a critical part of collective engagement. A collective voice can complement messages delivered in direct engagement.
- 

### Insights for companies

1. Awareness of the difference between **evaluation and monitoring** (investors asking questions) and **engagement** (investors expressing views about what needs to change) can provide a clear insight into the health of the relationship.
  2. A transparent framework for **capital allocation** decisions increases investor conviction, and demonstrates how competing perspectives are managed. Surprise changes in resource allocation can undermine confidence.
  3. Investors value tangible evidence of **Board oversight and effectiveness** on the issues that matter. Demonstrating the effectiveness of NEDs reassures shareholders of the Board's ability to hold the executive to account.
  4. Effective succession planning is vital to maintain, or restore, investor confidence in corporate leadership.
  5. **'Comply or explain' does still work...** but it is important to communicate clearly and seek mutual understanding rather than simply impose and re-iterate a position.
- 

## STEWARDSHIP 360 PROJECTS

The Stewardship 360 (S-360) programme brings investors together to collaborate on wider issues that impact companies, industries and the environment in which they operate. The Forum develops insights gained from engagement activities, and seeks to address broader issues, which Members ask the Forum to focus on. Typically these fall into one of three broad areas:

### Key Issue Engagement

- Research and practical recommendations on issues that emerge from company collective engagement.

### Stakeholder Engagement

- Events that help position stewardship at the heart of investment decision-making.

### Long-term Value Engagement

- Projects that support long term investment approaches.



### In 2019 we undertook the following:

#### Key Issue Engagement

##### Working practices:

- Extension of the 3-year project from apparel and food retail into the Construction Sector.

##### Marine Plastic Pollution:

- Convening an Investor Group to catalyse the creation of a new technical standard for plastic pellet management, in conjunction with a wider group of stakeholders.

#### Stakeholder Engagement

##### Stewardship Summit with UK Banks:

- Convening Members, NEDs and industry experts to explore key issues for UK Bank Boards.

##### Other events:

- Global stewardship:
  - Discussion with the Asian Corporate Governance Forum
  - US investor-corporate dialogue – Workshop with Davis Polk
- Collective Engagement Framework review – Presentation by the Forum’s Legal Panel
- Investor engagement on Audit – Workshop with EY

#### Long-term Value Engagement

##### Chair/Investor Breakfast Series

- Chair & Investor debates on whether purpose, sustainability and stewardship can help restore society’s confidence in public markets.

##### The Four Dialogues – Engaging on Governance

- The Forum commissioned an experienced IR professional to investigate the health of the company-investor dialogue. The results were presented in a white paper, through a panel discussion and a series of meetings to discuss the findings.

## S-360 - WORKING PRACTICES

The Investor Forum has an objective to put stewardship at the heart of the decision making process. Shareholders increasingly seek 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, expertise in these areas is becoming a differentiating factor.

### **The genesis of this project was a company-specific engagement with Sports Direct in 2015 and 2016.**

#### **Phase 1 – Apparel Sector**

In 2017, the project focused on the working environments of distribution centres and the potential for abuse within the textile supply chain. In addition to workshops, the Forum arranged store visits with luxury and mid-range brands, and took Members to see working conditions inside the distribution centres in the North East of four listed companies.

#### **Phase 2 - Food Retail Sector**

In 2018, the project was extended to an evaluation of the food retail sector. These large consumer-facing businesses are significant employers, directly and indirectly, and have the power to influence complex global supply chains. The Forum organised a conference with Sainsbury's, Tesco and industry experts. Working with Sainsbury's, the Forum arranged investor access to two private UK-based fresh produce suppliers, to show investors front-line examples of labour supply challenges. The Forum also engaged constructively with Tesco's Responsible Sourcing Director.

#### **Phase 3 – Construction Sector**

The current phase is focused on the systemic issues that contribute to the high risk of labour exploitation within the construction sector, and how investors can encourage companies to take steps to address the issue. The Forum hosted a discussion with the Chartered Institute of Building to provide insights into the specific challenges and range of responses within this industry, and will meet companies across the supply chain for more detailed investigation in 2020.

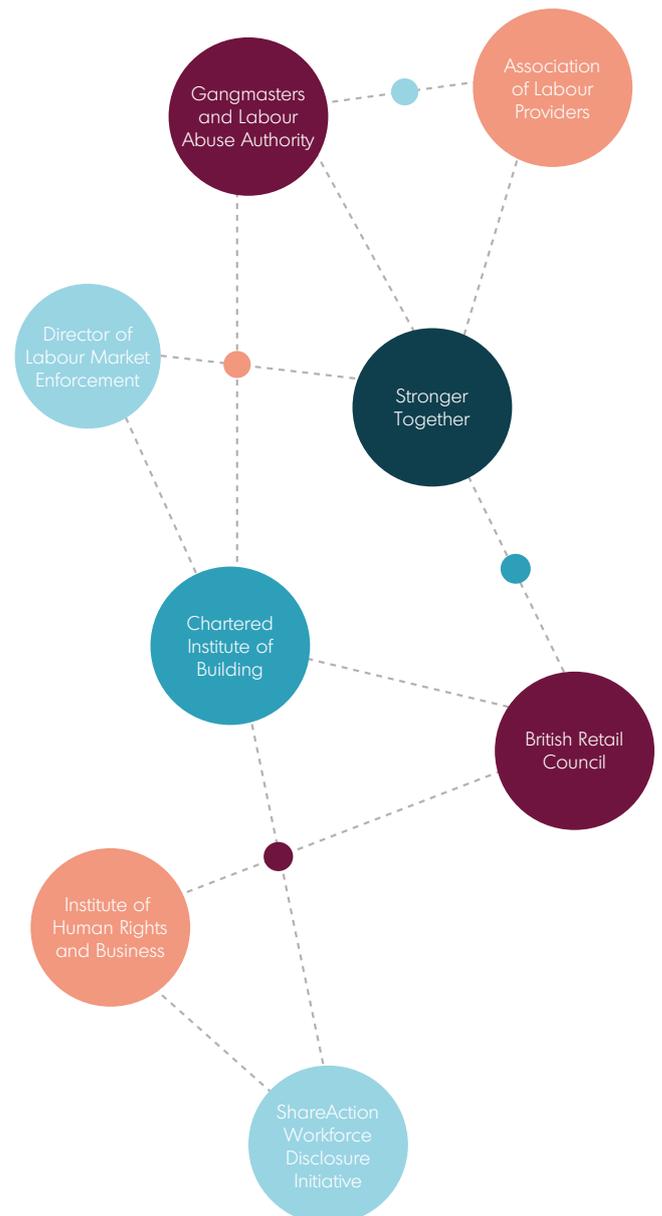


Figure 1: Project Speakers

## S-360 – SETTING THE STANDARDS ON MARINE PLASTIC POLLUTION

Plastic pollution is a complex global issue that needs collaboration between governments, the corporate sector and wider society if the issue is to be tackled effectively. Collective investor action, to complement individual, company-specific engagements, has the potential to provide a powerful expression of investor willingness to exercise influence and support change.

Sometimes engagement alone is not enough; business leaders need practical tools. To catalyse a supply-chain response to reduce plastic pellet pollution, a new auditable best practice framework is required. In a proactive step, the Investor Forum brought together a number of its Members to co-sponsor a new BSI “Publicly Available Specification” (PAS). These investors are providing financial resources to fast track the creation of a new standard, which signals to companies and policy makers the desire of investors to have a positive impact with measurable outcomes.

### Evidence of Investor Stewardship in Action

In 2018, Mclnroy & Wood asked for the Forum’s assistance in coordinating an engagement with the standard setting agencies. With the Forum’s help, 18 investors signed a letter calling for new standards to be written which would codify best practice and equip companies to address a problem throughout their supply chain.

The British Standards Institution agreed that a standard was required, and suggested that a “Publicly Available Specification” (PAS) be sponsored to enable a fast-track delivery. Without this PAS, plastic pellets may not have been on BSI’s agenda for some time.

For the first time, investors have come together with government (Marine Scotland) and industry bodies to form an innovative multi-stakeholder co-sponsor group to deliver a new standard. In December 2019, nine investors committed to provide financial support, to commission a PAS and provide grant funding for conservation charity Fauna & Flora International to act as an expert on the steering committee on their behalf.

*The investor co-sponsor group comprises: Allianz Global Investors, Brewin Dolphin, Environment Agency Pension Fund, Generation Investment Management, LGPS Central, Mclnroy & Wood, Man Group, Ownership Capital, and Troy Asset Management.*

### What are plastic pellets?

Plastic pellets – otherwise known as nurdles – are bits of plastic that are the building blocks of the plastic industry. Plastic pellets, powder and flakes can escape at various points in the cycle of production, manufacturing, storage, transportation and recycling. Escaped pellets are then washed into natural waterways, negatively impacting the ecosystem and threatening wildlife.

### Who is BSI?

The British Standards Institution (BSI) is the national standards body of the UK, operating independently under Royal Charter. BSI is a member of the European Committee for Standardization (CEN) and the International Organization for Standardization (ISO).

### Why write a new standard?

Standards are strategic tools, based on definitions, measurements, metrics for testing and other specified parameters agreed by consensus. They are drawn up by a group of experts following a certified process and define best practice in many different areas.

A supply chain approach for pellet management will increase the accountability of, and confidence in, all companies using or buying plastic products that pellets are handled responsibly at all stages of production. Companies are used to implementing technical standards. Compliance with a standard would allow companies to demonstrate that their entire supply chain has put measures in place to prevent plastic-loss, and give investors a means to evaluate and hold companies to account for their activities.

# S-360 – SETTING THE STANDARDS ON MARINE PLASTIC POLLUTION

## A Small Part in Addressing a Big Problem

By supporting the development of the PAS, investors are making a contribution to a multi-faceted approach being taken by stakeholders to reduce plastic pellet loss.

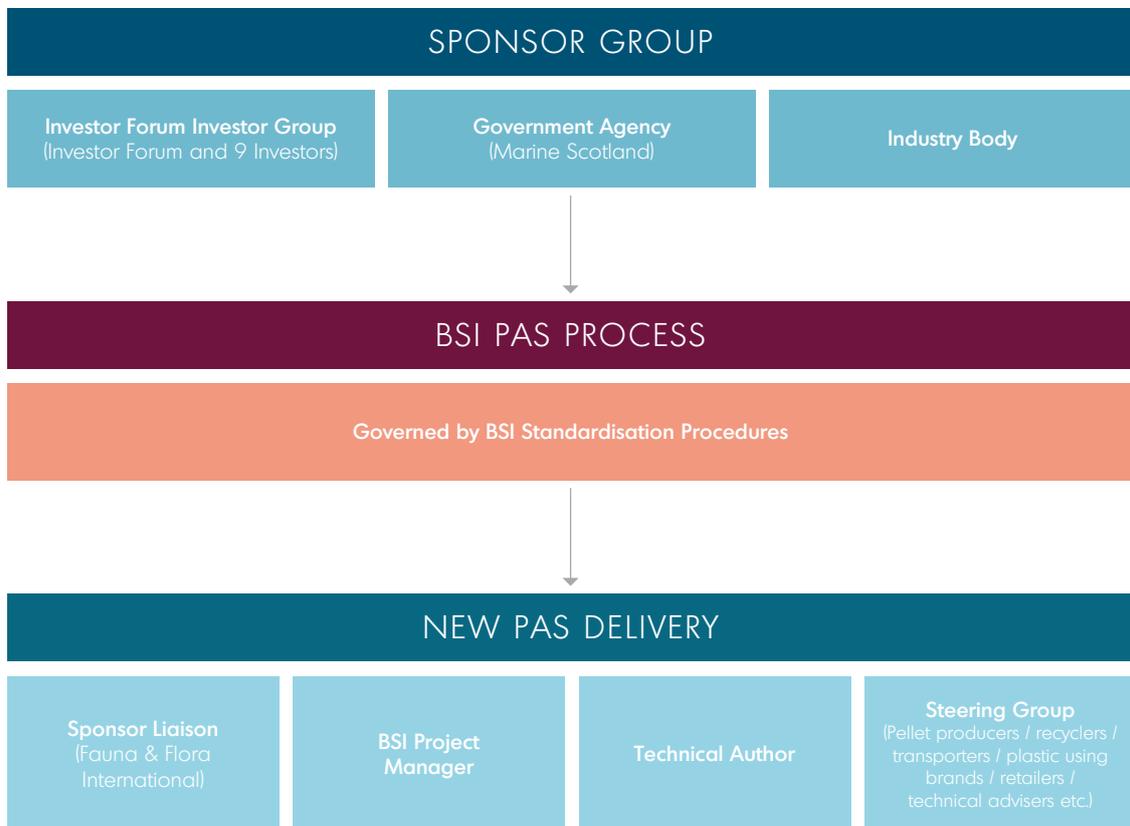
For example, the Scottish Government has formed a steering group of industry, regulators and NGOs to develop a certification system design which would allow for auditing against the requirements which will be set in the PAS. Their steering group will test proposed system designs with businesses across the supply chain and share final recommendations internationally.

## What is the targeted outcome?

Creation of a standard is a practical and impactful way to change behaviour throughout the supply chain. The Sponsor Group favours such an approach as the solution does not require innovation or a complex, system-wide co-ordinated response, and can deliver demonstrable outcomes within a finite time scale (12-18 months).

The PAS could be a starting point to enable EU-wide legislation, and adoption by ISO would have a high global impact.

## A Multi-Stakeholder Approach



## FACILITATING DIALOGUE

“Facilitate dialogue” is one of the key aims of the Investor Forum. In conversations with Chairs over the last five years, there has been a consistent frustration with the remuneration debate, the role of proxy advisors and the ever-increasing number of surveys and requests for non-financial information. Likewise, investors are frustrated that companies are often slow to respond to issues of concern that are raised, seeking to justify existing positions rather than engage to find more effective solutions. The Forum believes that there is a need for both sides to re-prioritise, and to focus their dialogue on the drivers of sustainable long-term value.

### Chair Breakfasts

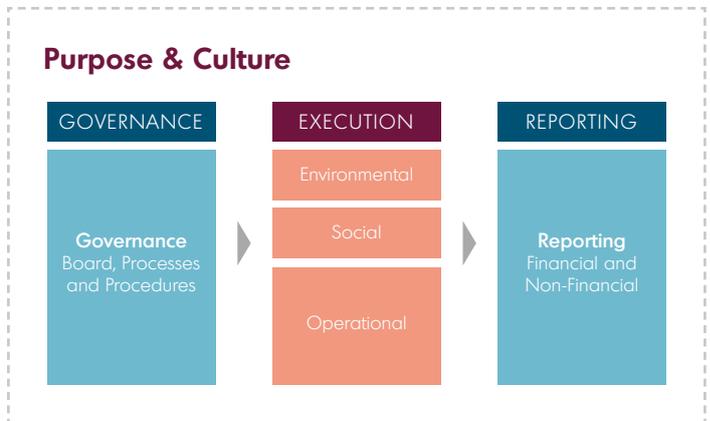
Over the last three years, the Forum has held a series of breakfasts with Company Chairs, Non-Executive Directors and investors to discuss how the dialogue is changing. In 2019, 34 directors and 33 investors attended these events, and there was a particular focus on whether purpose, sustainability and stewardship can help to restore society’s confidence in capitalism.

Participants concluded that, while there is now more connection between purpose, accountability of the Board and issues that matter to wider stakeholders, not just shareholders, there are multiple conversations taking place. The discussions highlighted the difference between the dialogue around the board table, which is typically broad and long-term in nature, and the conversation with investors that is more short-term and transactional.

### The Four Dialogues

In 2019, the Forum focused attention on understanding the barriers to investors and companies holding more effective dialogue. The Forum commissioned an experienced Investor Relations professional to review what happens on a day-to-day basis, and how engagement works, and is perceived, in practice.

The report offered a framework to evaluate the role of governance, the focus on environmental, social and operational drivers of value, and the reporting by companies on financial and non-financial items.



Using this framework, the report identified and explored “The Four Dialogues”, mapping interactions between companies and investors into distinct conversations, based on their time frame and whether they are focused on Governance or Execution. Each of the dialogues typically has different participants, subject matter and objectives. Figure 2 shows these Four Dialogues with the proportion on time spent on each as reported by an informal sample of corporate participants.

	Transactional (Short term)	Strategic (Medium/Long term)
Governance	2% to 20% e.g.: AGM Voting	1% to 7% e.g.: Board Effectiveness
Execution	45% to 70% e.g.: Results and Modelling	20% to 45% e.g.: Forecasts and Targets

Figure 2: Four Dialogues

The report concluded that substantive discussions on longer-term, strategic governance are crowded out by the emphasis on short term reporting, modelling and checklists for AGM voting.

*Continued »»*

## FACILITATING DIALOGUE

From a company perspective, the investor conversation frequently does not appear sufficiently joined up between the governance and investment teams, and integration of environmental and social issues was rarely observed. The estimated time allocated to each quadrant indicates that time and resources could be managed more effectively to optimise the outcome for all parties. The report concluded that there is a need to shift conversations into the long-term strategic categories, and this issue is discussed further in the Stewardship Review section.

### Stewardship & Strategy Forums

There remains a significant opportunity to improve the dialogue between Boards and Investors, particularly as the stewardship and ESG dialogue is more widely integrated into investment decision-making. Over the last 5 years, the Investor Forum has encouraged companies to hold Stewardship & Strategy Forums (SSF), which allow investors to gain insight into Board stewardship of the company's strategy. The Forum has worked discreetly with a number of companies over that period to shape the agenda of events and will continue to promote the SSF concept and share best practice.

We do not, however, believe that there has been any meaningful increase in effectiveness of governance events that occur across the FTSE 350. So the Forum is increasingly now using small, Member-only, group meetings with companies to discuss targeted issues. This format is proving more valuable to participants. By acting as a facilitator and agreeing an agenda, the Forum is able to increase the effectiveness of group meetings for the benefit of investors and companies.

### Group Meetings

In addition to facilitating engagements, the Forum also facilitates group meetings with companies to address issues of specific concern to members. These do not represent formal engagements but fulfil the objective of facilitating dialogue in situations where communication has proved challenging or where investors are seeking to address a broader agenda with the company to complement their individual interactions.

Group meetings with NEDs can be valuable for investors and efficient for companies. These meetings help investors to gain clarity from the Board and increase their confidence that the Board

is fully aware of the nature of investor concerns. A structured agenda, and a focus on the questions that are top of mind for investors can generate a positive discussion that is time and resource efficient and creates goodwill on both sides.

In 2019, Members asked the Forum to organise meetings to discuss a variety of issues:

- Ryanair Holdings plc – 10 Members met the SID, Chair of the Remuneration Committee and CFO in Dublin to talk about labour relations, environmental policy, the remuneration policy and Board effectiveness, including succession. The Forum also joined the company-organised investor meeting after the AGM to meet the Chair, Chair-elect, SID and RemCo chair.
- Group meetings as part of an engagement – The Forum facilitated Member-only group meetings with Safestore plc, Imperial Brands plc and one still active engagement for participants to engage on a pre-defined agenda.

### Stewardship Summit – UK Banks

As a way of testing an alternative approach to meet the need for greater dialogue with NEDs on strategic and material issues, in November 2019 the Forum held a Summit focusing on the UK Bank sector. The event brought together a range of participants to shine a light on the breadth of discussion around the board table and the range of ESG issues that need to be incorporated into an assessment of a company's ability to create sustainable long-term value.

The focus was on the important conversations which drive value, but which investors often don't explore in detail when talking to companies. Participants discussed audit and risk, purpose, competition and balancing stakeholder interests with NEDs, which offered insights into some of the hidden dynamics that drive the sector. The topics of climate, culture, conduct and diversity were covered through panel discussions with industry experts, aiming to identify the key questions and resources that investors can use to make better informed assessments and to prioritise an engagement activity.

The Forum plans to hold similar events in the future, each taking a sector or thematic focus.

## PROMOTING WELL-FUNCTIONING MARKETS

Principle 4 of the 2020 Stewardship Code calls for signatories to explain how they promote continued improvement of the functioning of financial markets, including addressing risks such as climate change or those that may lead to business failure.

As with all of the new Principles, there is a requirement to report on outcomes. This Principle is likely to be particularly challenging, and there will be benefits for investors in using all the tools available to address these types of issue.

To promote well-functioning markets, the Forum creates frameworks and structures that develop the approach to Collective Engagement and enhance the interaction between investors and boards through

Stewardship Forums. The Forum addresses broader market issues such as ADR voting, working practices and marine plastic waste through its S-360 project work.

The Forum has contributed to the political and regulatory debate through submissions to regulatory reviews in recent years and by maintaining an open dialogue with government departments, regulators and policy makers. The Forum also has regular conversations with international organisations, both in terms of policy developments and propagating best practice. The Forum’s framework for collective engagement has been of particular interest to groups in Japan and France.



Figure 3: Facilitating Dialogue to promote well-functioning markets.



# STEWARDSHIP REVIEW

Over the last five years, almost every aspect of stewardship has been revisited and as we enter 2020 we will be operating with refreshed Corporate Governance and Stewardship Codes. In this section we highlight four key issues which we believe provide practical insights into the heightened expectations of asset owners and the demands of new Stewardship Code.

- *Stewardship Landscape*
- *Responding To The New Code*
- *Engagement Critical Success Factors*
- *Focusing On Material Issues*
- *Expectations*



## STEWARDSHIP LANDSCAPE

What a difference a year can make. We reflected last year that one of the only things we could say with confidence was that the stewardship landscape now would not be the same as it was then. And that is indeed the case.

### What Has Changed:

- The FRC has produced a revised Stewardship Code that is focused and fit for purpose, concentrating on the outcomes of engagement not just inputs.
- The FCA has made clear its interest in the area of stewardship, and its high expectations of investors in this regard – while also making clear that it intends to remain at the level of principle and expects the industry to rise to the challenge.
- These two regulators have done this in part to implement the second EU Shareholder Rights Directive – which is really more about shareholder responsibilities than rights.
- The FRC has a new Chair and new CEO, who are beginning the process of recreating the regulator as an entirely different and tougher beast, ARGA.

### What Will Change:

- The collapse of Thomas Cook has renewed Select Committee scrutiny on perceived failures of corporate governance, audit and stewardship.
- Sir Donald Brydon's review into the audit product has proposed some new shareholder rights, and new responsibilities to go alongside them.
- Challenges regarding intermediated securities are increasing, with the Law Commission advancing its work, and underlying clients agitating for greater influence.
- Climate continues to be a major focus for the world. Increasing questions are being asked of investors to respond to the challenge of disclosures, for example in accord with TCFD.
- The FCA will have new leadership in 2020 and the new Government will likely enact legislation in response to the Kingman and Brydon Reviews.

What happens next is down to investors. There is an enormous opportunity for investors to deliver differentiated stewardship outcomes. The FRC and FCA have in effect laid down a challenge for the

investment industry, to rise to the aspiration that the stewardship code and its high-level principles represent, and to deliver truly effective engagement with the companies in which it invests. Further, the discussion around intermediation is only one part of the move by clients and beneficiaries to demand more from the industry, to set out their own expectations around the challenge of stewardship. Investors need to rise to that challenge.

This will be the year when the investment industry must choose to deliver and work to be able to demonstrate and report on that delivery.

***The need for transparency around stewardship activity has never been greater, including the need to demonstrate how the investment world is a link between individual savers and the businesses in which their money is invested.***

The world is watching. The UK remains a leader both in corporate governance and in stewardship, with a number of countries having modelled their own approaches on UK codes. Similarly, there is a good deal of interest around the world in collective engagement models such as the Investor Forum (for example, the recent report by France's Club des Juristes mentions the Investor Forum as a model collective body that France might wish to replicate). The way in which the industry responds to the new Stewardship Code is likely to shape not only the landscape of engagement locally but also globally. Such a global response is needed to rise to some of the challenges that we face, not least climate change.

# RESPONDING TO THE NEW CODE

**“We believe that stewardship is preserving and enhancing the value of assets with which one has been entrusted on behalf of others. It reflects the fact that any investment intermediary looking after assets on behalf of a beneficiary or client has obligations of a fiduciary nature.”**

Investor Forum, Defining Stewardship and Engagement, April 2019

Stewardship is a natural consequence of fiduciary duty: the obligation to enhance the value of any asset which has been entrusted to our care. For a professional charged with managing assets, this is a substantial obligation.

## Stewardship In Practice

The model below illustrates how stewardship and engagement can be embedded into an investment process:



## Implications of the New Stewardship Code 2020

The new Code provides a framework for understanding this substantial stewardship obligation, and defines how signatories must demonstrate how they have delivered against it.

- It includes 12 Principles (plus an alternate six for service providers) where formerly there were seven; and
- The number of pages has tripled as compared to the 2012 Code.

But the biggest change is not the growth of the document, rather it is the increased ambition for practical delivery by signatories. Gone is the former focus on statements of intent. Instead, investors must now report annually on activity, and most importantly, on outcomes.

Every one of the new Principles is accompanied by an associated outcome that should be reported on, concrete examples of what has actually been delivered in practice. No longer will signatories be seen to fulfil the demands of the Code by publishing assertions and ambitions. Instead they will need to deliver practical effects of their actions. For many, this will be a demanding step and it seems highly likely that many fewer institutions will be deemed top tier under the new Code. Much current reporting is about activity and includes broad discussions of aspirations. The new Code demands not just aspirations and activity but practical delivery.

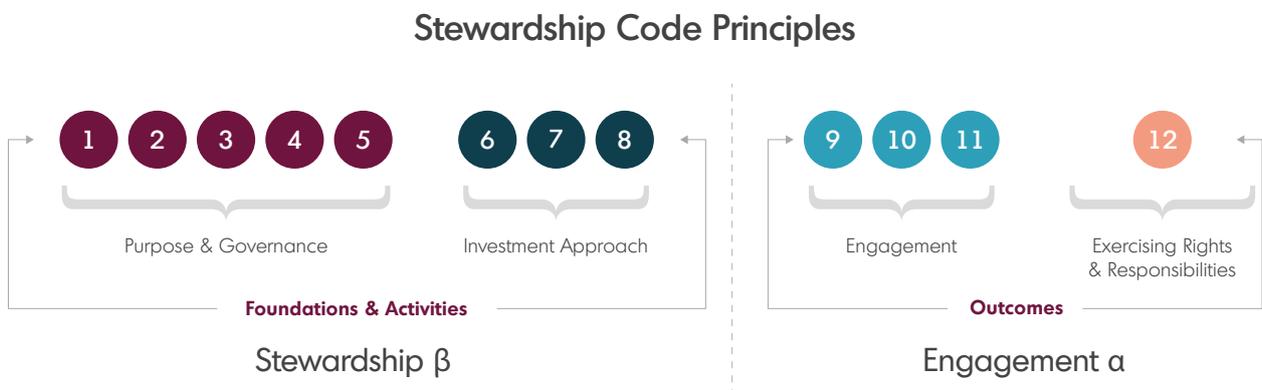
## RESPONDING TO THE NEW CODE

### Understanding the New Principles

The principles fall into 4 categories but cover two distinct functions:

- Principles 1 to 8 address the foundations for stewardship.
- Principles 9 to 12 focus on the discharge of engagement responsibilities.

We believe that the first 8 principles represent the building blocks of stewardship that all investors require. We would call this “stewardship β”. It is against the later principles that investors will differentiate and distinguish themselves through their activities, capabilities, outcomes and impact. We would call this “engagement α”.



### Evidencing the New Principles

The need to report on concrete examples applies to all principles:

- Principles 1-5 of the new Code cover structural issues such as governance, culture and conflicts and so the outcomes that need to be disclosed are evidence that those structures perform in practice.
- Principles 6, 7 and 8 are about integrating ESG factors into the investment process and effective oversight of service providers, and here the disclosures need to be explanations of how these processes have delivered effectively on behalf of clients and beneficiaries.
- Principles 9 to 12 are the ones regarding concrete engagement (and voting) activities and the outcomes reported on need to be examples of actual substantive change at companies as a result of the engagement activity. Few investors currently disclose these.

Perhaps the most challenging of all the new Principles is number 4, which charges signatories with identifying and responding to market-wide and systemic risks. Some investment institutions already recognise their obligation on behalf of beneficiaries and clients to maintain and promote well-functioning markets and social and environmental systems, but for most this will feel like a significant additional burden. To be required to “disclose an assessment of their effectiveness in identifying and responding to” such risks sets a high hurdle for all.

The conclusion is clear. Investors need to deliver impact from stewardship activity and report on real engagement outcomes.

## ENGAGEMENT CRITICAL SUCCESS FACTORS

The Investor Forum published a white paper in November 2019 “Collective Engagement: An essential stewardship capability” which identified a framework to assess the effectiveness of engagement in order to help asset owners and asset managers calibrate engagement effectiveness. This section summarises the key conclusions.

### Stewardship Code 2020

As the focus moves to outcomes and impact, the quality of engagement activity will emerge as one of the defining characteristics of investor stewardship capability.

#### Types of Engagement

We have identified 12 activities which are typically referred to as engagement. Five are generally undertaken by an institution directly with a company (one-to-one engagement), and seven involve some level of interaction and collaboration with other shareholders (collective engagement).

##### One-to-one Engagement

1. Generic letter
2. Tailored letter
3. ‘Housekeeping’ engagement - annual dialogue with limited objectives
4. Active private engagement – targeted, specific engagement
5. Active public engagement

##### Collective Engagement

6. Informal discussions
7. Collaborative campaigns e.g. letter-writing, market/sector-wide campaigns
8. Follow-on dialogue e.g. following a broader group letter or expression of views
9. Soliciting support e.g. for formal publicly stated targets
10. Group meeting(s)
11. Collective engagement - formal coalition of investors with a clear objective
12. Concert party - formal agreement with concrete objectives and agreed steps

### Six Critical Success Factors for Engagement

We have identified six critical success factors for engagement success, based on our experience, and insights from academia. There are two dimensions to these success factors, the first dimension applies to the engagement approach, both one-to-one and collaborative, and the second dimension applies solely to collaborative engagements.

#### Critical Success Factors:

##### ENGAGEMENT APPROACH

- 1 Objective(s) should be specific and targeted to enable clarity around delivery.
- 2 Objectives should be strategic or governance-led, or linked to material strategic and/or governance issues.
- 3 The engagement approach should be bespoke (tailored) to the target company.

##### INVESTOR COLLABORATION

- 4 The participants should have clear leadership with appropriate relationships, skills & knowledge.
- 5 The scale of coalition gathered (both scale of shareholding and overall AUM of group) should be meaningful.
- 6 The coalition should have a prior relationship and/or cultural awareness of the target company.

## FOCUSING ON MATERIAL ISSUES

With heightened expectations and a call to incorporate a much broader range of perspectives, a key stewardship question is how to prioritise the many competing needs.

In order to encourage a company to take a fresh approach to an issue, it is vital for an investor to be in dialogue not only with senior executives, but also with board members, as the board will have the ultimate decision-making authority at any company. In order to get directors' attention, investors must focus on issues that are significant enough to matter to the Board. This is the challenge of materiality: speaking about the issues that matter and in a way that persuades others that they matter. This challenge often lies at the core of good engagement.

### Engagement Effectiveness

One of the key critical success factors for engagement is that objectives should be strategic or governance-led, or linked to material strategic and/or governance issues.

Because financial concerns have long been the basis of dialogue between companies and their shareholders, discussions of financial issues are more readily seen as material. It is the language that either side most expects the other to use. There is therefore an added need in engagement on environmental, social and governance matters to make explicit the link to value and strategy. As ESG considerations have often not been central to the investment decision making process, the language of ESG for many still seems surprising and less likely to be material.

Effective stewardship needs to address this gap of understanding. In the gap lies a good deal of the current failure to communicate between companies and their investors. One of the cornerstones of effective engagement is a simultaneous translation between the expectations of the investor and the understanding of the corporate board.

Engagement works well when the issues are couched in the context of the strategy and business model. If too much emphasis is placed on the details of environmental or social concerns, or on governance nuances, particularly at the start of an engagement, the conversation risks failing to earn the proper attention of the board. ESG

issues have, historically, been too easily dismissed as niche and the focus of campaigning specialists rather than mainstream investors.

Clear communication and active listening on both sides and a mutual desire to identify a solution are the hallmarks of effective engagement.

### ESG at the Heart of the Investment Process

Because governance issues are often about the running of the board, engagement dialogue is typically sought with the company chair, or another non-executive director, often through the company secretary. The first point for dialogue on environmental or social matters by contrast may well be operational management nearer to the specific issues in question, or sustainability functions within the company. When material, these issues need to be escalated by the investor to ensure board attention.

Environmental and social issues are often driven by the sector in which the company operates. Likewise, governance issues are more typically driven by the country of incorporation and the regulatory regime within which the company operates. Both sets of issues can thus sometimes be independent of the business model. As a result, it can be harder to make the direct link between ESG factors and the individual company. Making that link is therefore a necessary step for both the investor and the company.

### Thematic Versus Company Specific Engagement

The gap in understanding can be exacerbated where investors approach all companies in a sector on a specific environmental or social matter, or multiple companies in a particular geography regarding a governance matter. Unless a broad-based engagement approach is tailored in detail to the individual company, it can cut the link to the business model and strategy, limiting the clarity of the materiality message. This poses an additional challenge when creating engagement programmes top-down, on a thematic, sectoral or geographic basis, rather than from a bottom-up understanding of individual companies.

## FOCUSING ON MATERIAL ISSUES

### Material Issues Impact Company Value

A further challenge can arise when a company and an investor disagree about the materiality of a particular issue. It may be difficult for the investor to gain the appropriate attention from a board to a specific issue, even when the investor believes that it is clearly a material factor that can influence the value of the company. This may most commonly occur where investors have concerns about a reputational risk to the company.

In a similar way, a company may be willing to run a risk that it regards as highly remote even though an investor believes that the severity of that risk, should it eventuate, is sufficient to require additional mitigation or avoidance. Such issues are often the most intractable ones for engagement, as there can be limited opportunity for the simultaneous translation which is needed to break down the barriers of different understanding.

### The Role of Collective Engagement

By design, collective engagement helps to ensure considerations of materiality are central to the determination of engagement objectives and agendas. This occurs in two ways:

- Proposal of a candidate for collective engagement. A collective sense of a need for engagement is only likely to coalesce where the issue to be raised is material and will substantively influence the company and its strategic direction.
- Need for participants in collective engagement to focus on agreed objectives. Because of the need to agree on an engagement objective, the process of collective engagement invites iteration towards a clear focus and an emphasis on sustainable long-term value creation.

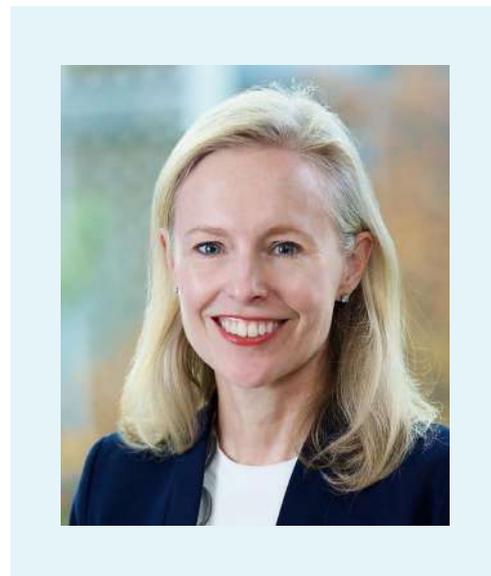
Materiality therefore comes almost as a given in collective forms of engagement. The obligation on the engagement lead in a collective engagement to articulate that materiality and the link to value is demanding. It is a reason why the number of collective engagements facilitated by the Forum are relatively few in any given year.

As an investment manager, I have long believed companies with good corporate governance are more likely to deliver sustainable earnings and superior investment returns over the long term. Consequently, assessing governance practices and engaging closely with corporate managers and boards of directors has been a critical part of my investment process.

Furthermore, as asset owners increasingly prioritise responsible, sustainable investment and as financial regulators seek to prevent corporate malfeasance, we as investment managers must think even more broadly about our roles as stewards of capital; meaningful, deliberate engagement with corporate managers and boards of directors on wider stakeholder issues like diversity and societal impact has never been more important.

The Investor Forum is providing a crucial service by facilitating dialogue and promoting best practice in stewardship and governance, and I could not be more delighted to have joined the Board, given my whole-hearted support for its mission.

Anne Marie Fleurbaaj  
Investor Forum Director, 2019



## EXPECTATIONS

### 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
- Confidentiality: all dialogue is confidential although public escalation strategies may be considered when necessary

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### 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
- 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
- No inside information: the Forum actively seeks to avoid obtaining inside information from companies without prior consent
- A comprehensive plan to build confidence: we seek outcomes that enhance the sustainable long-term value of the franchise for the benefit of all stakeholders



# GOVERNANCE & OPERATIONS REVIEW

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- *IF Governance*
- *Internal Resources & Policies*
- *Collective Engagement Framework*
- *Membership*



# IF GOVERNANCE

From the outset the Forum has adopted 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 not-for-profit CIC in September 2014, with Members granted equal voting rights and a Board of Directors drawn from across the investment chain and wider stakeholders. Full membership of the Forum is open to institutional investors in UK-listed companies, including both asset managers and asset owners and both UK-based and global organisations.

## Board of Directors

The Forum has an independent Board of Directors that is elected each year by its Members at the Annual General Meeting. The Board oversees the work of the Forum’s executive officers.

The composition of the Board is intended to reflect Member interests, and to incorporate independent voices from industry, academia and the corporate world to bring a diversity of perspectives. Figure 4 below highlights the range of skills that directors bring to the Board. Profiles for each director can be found on page 41.

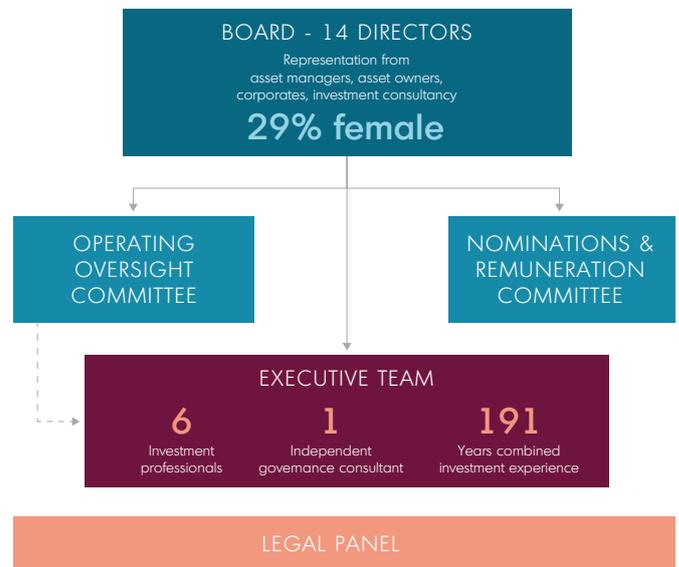


Figure 4: Board experience and areas of insight

During 2019, the Board met four times to discuss the work of the Forum and to consider its progress in meeting its objectives. It reviewed developments in markets and stewardship and considered the implications for the Forum. A detailed strategic review was undertaken in order to set the direction of the Forum for the three years to 2022.

The Chair and Board are supported by two sub-committees:

- The Nominations and Remuneration Committee (NARC) 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. It seeks to ensure an orderly succession of Directors and to maintain a balance between Member representatives and independent Directors. It also monitors the outside directorships and broader commitments of the non-executive Directors. The Committee met twice during 2019.
- The Operational Oversight Committee (OOC) oversees the legal, audit, and risk issues affecting the business, and its financial management. The Committee has oversight of key policies, reviews the financial statements, key risks and considers other topics, as directed by the Board. The OOC met four times during 2019.
- No Non Executive Director receives any remuneration.



The Executive and the Board of Directors have access to pro bono support from the Investor Forum Legal panel which is formed of senior legal practitioners from four leading international law firms.

## THE BOARD

### Simon Fraser<sup>1</sup> – Chairman | Sep 2014\*

Chairman since 2014, Simon is also Chairman of Mclnroy & Wood and TS Lombard. He spent 28 years at Fidelity, working in the US, Europe and Asia helping build the network of international investment professionals, ultimately becoming Chief Investment Officer of Fidelity International. Since leaving Fidelity he has also served as Chairman of F&C Investment Trust and Merchants Trust and a non-executive director of Barclays plc and Ashmore plc.

### Andy Griffiths – Executive Director | Sep 2014

Andy has over 25 years of international investment experience. Before setting up the Investor Forum in 2014, Andy was a senior investment professional at Capital Group and M&G. Throughout his career, Andy has been responsible for financial sector investments and has consistently been ranked among leading equity investors in Europe. Andy was also an Operating Partner with Corsair Capital.

### Edward Bonham Carter<sup>2</sup> | Dec 2014

Edward was previously joint CEO, Chief Investment Officer and UK fund manager at Jupiter, before becoming Vice-Chairman in 2014. Previously he worked at Schroders and Electra Investment Trust. Edward is currently SID of Land Securities Group plc and ITV plc and a Board member of Netwealth Investments Ltd.

### Mark Burgess | Dec 2014

Mark is the former CIO, EMEA and Global Head of Equities at Columbia Threadneedle Investments. Prior to this, he held senior roles at Legal & General Investment Management, Morgan Grenfell Asset Management and Deutsche Asset Management. Mark was Chair of the Investment Association's Investment Committee until September 2019.

### Paul Coombes | Oct 2017

A former director of McKinsey & Company, Paul was head of their UK insurance practice and global leader of the firm's financial institutions practice. He is a member of the FRC's Stakeholder Advisory Panel. He is currently Chairman, Centre for Corporate Governance, London Business School.

### Anne Marie Fleurbaaij | Oct 2019

Anne Marie was with GIC (London), a sovereign wealth fund, where she spent 12 years as a Portfolio Manager. She is currently a Director at Columbia Threadneedle. Prior to this, she was a Vice-President at Morgan Stanley Investment Management and began her career at Deloitte. She serves as a Senior Adviser to Girls Are Investors and is an Ambassador to the Diversity Project.

### Sir Peter Gershon | Jan 2018

Sir Peter has held senior positions in public and private companies in healthcare, technology and the telecommunications industries. His previous senior board level appointments include Chairman of Tate & Lyle plc, Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and a member of the UK Defence Academy Advisory Board. He is the current Chairman of National Grid plc.

### Jessica Ground | Jan 2017

Jessica is Global Head of Stewardship at Schroders, and chairs the firm's Corporate Governance Committee. She was previously a fund manager and an analyst covering Financials and Utilities on a pan-European and Global basis. Jessica is Chair of the Investment Association's Corporate Governance and Engagement Committee.

### Chris Hitchen | Dec 2014

Formerly CEO of RPMI Railpen, Chris is now Chairman of Border to Coast Pension Partnership and The Pension Superfund, as well as being a Trustee and Chair of the Investment Committee of NEST. Chris is also a board member of the International Centre for Pensions Management and on the investment committee for the Guardian Media Group.

### Ida Levine<sup>3</sup> | Dec 2014

Ida's roles at Capital Group have included Board Director, Senior Vice-President, Senior Counsel, Head of Legal & Compliance in Europe and Director of European Public Affairs. Ida is Chair of the International Securities Regulation Committee of the International Law Association, and sits on the Board of the Impact Investing Institute.

### James Macpherson | Oct 2017

James is Deputy CIO of BlackRock's Fundamental Active Equities team and a member of BlackRock's Leadership Committee, having been at the firm and its predecessor companies as an analyst and portfolio manager for 32 years.

### Luba Nikulina | Apr 2019

Luba is Global Head of Manager Research at Willis Towers Watson, responsible for the global team of analysts conducting investment research on asset management firms around the world in a variety of asset classes, making recommendations to WTW's clients. Luba also oversees operational due diligence on asset management firms.

### Sacha Sadan | Dec 2014

Sacha is Director of Corporate Governance, Legal & General Investment Management, and has overall responsibility for corporate governance at LGIM, including ESG issues. He is also on the Board of Legal & General Investment Management Ltd. Sacha was previously Senior UK Equity Manager at Gartmore.

### Robert Swannell | Dec 2014

Robert is Chairman of UK Government Investments, which is responsible for corporate finance and corporate governance for HMG. He is currently a member of the Takeover Appeal Board and was previously Chairman of Marks & Spencer plc. Robert spent over 30 years in investment banking with Schroders/Citigroup and was on the board of both British Land Company plc and 3i Group plc.

1. Chairman of Nomination and Remuneration Committee

2. Senior Independent Director

3. Chair of the Operating Oversight Committee

\*Appointment date

## INTERNAL RESOURCES AND POLICIES

### Executive Team

The Investor Forum benefits from a collegiate culture that welcomes input from any source and encourages debate, while focusing on practical outcomes.

The culture of the organisation means the team recognises that there is always something new to learn, and that each engagement is different and must be considered afresh. Feedback is sought from Members and the Board to help learn lessons. External perspectives are invited to challenge and question how things are done, and how they might be improved.

The team is highly motivated and has a deep knowledge and understanding of investment markets and stewardship based on extensive experience as portfolio managers, research analysts, asset owners and capital market practitioners. Of the eight employees, six are investment professionals each with over 20 years' industry experience while the independent governance consultant also has 20 years industry experience. 50% of the investment professionals, and 55% of the entire team, are female.

Each collective engagement or project is managed by an individual member of the team in conjunction with the Executive Director, and where appropriate other members of the team, to develop and enhance the planned approach.

Each member of staff has an individually tailored contract of employment taking into account flexible working hours. In addition to their base salary all employees, including the Executive Director, are provided with a 'cash-equivalent' allowance to facilitate a personal selection to be made from publically available benefits to suit their own needs (including pensions provision). This is currently calculated as 15% of gross salary.

The highest paid Full Time Equivalent member of staff (which is not the Executive Director) is paid at a rate which is equivalent to 4x the remuneration of the lowest paid member of staff. Variable compensation across the team represented 2.3% of gross salaries in FY 2019. Remuneration details for the Executive Director are detailed in The Investor Forum CIC Report and Accounts for the year ended September 2019.

### 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 now in its fourth year of audit tenure) is posted at Companies House each year. As a not-for-profit company, the Forum's financial objective is to balance costs with anticipated revenue.

The Investor Forum is an independent entity funded solely by subscription fees from its members. For the year ending 30 September 2019, membership revenues (from 49 members) were £926k and the company recorded a surplus of £27k 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". The Forum's asset-locked body is the registered charity "Business in the Community" as set out in the Articles of Association. BITC is an appropriate recipient for any Forum surplus in the event the Forum winds up, as it is a UK-focused charity whose purpose is to advance responsible business for the long-term.

Over time, the Forum 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 manages potential conflicts of interest through:

- The Collective Engagement Framework,
- The employee Code of Conduct,
- The Members Code of Conduct and
- The letter of appointment for directors.

Conflicts that may arise during the collective engagement process are managed through the CEF and with recourse to pro bono support from the Legal Panel, if appropriate.

### Review and Assurance

#### External Assurance

The Forum has been audited by external auditors, Sayer Vincent LLP, since 2016 and each of the auditors' reports has been unqualified.

In 2019, an independent consultant was commissioned, on a pro bono basis, to review how the Forum could best increase effectiveness and demonstrate value as part of a strategic review process with the Board.

#### Internal Assurance

The Board's responsibilities include reviewing the performance of the Executive. The Forum also conducted a Member survey in May 2018 to understand their views on the Investor Forum's impact and activities. The survey conclusions showed that Members believe that the Investor Forum is having a meaningful impact and that Members support the Forum's activities.

“When thinking about joining the Investor Forum's board as a NED, I was particularly attracted to the Forum's purpose of positioning stewardship at the heart of investment decision-making which very much aligns with how we work with clients at Willis Towers Watson. I was also very impressed with the calibre of people I met during the interview process and felt privileged to be joining this group.

As an investment consultant working with both asset owners and asset managers, we have recently seen a dramatic increase in the level of attention devoted to sustainability, but this has not yet translated in the same increase in the amount of time and, more importantly, quality of engagement and stewardship exercised by our industry. We think that better stewardship is an opportunity for our industry to redefine its purpose and demonstrate actual value creation to society beyond pure stock trading that often ends up as a zero-sum game.

Luba Nikulina, Willis Towers Watson  
Investor Forum Director, 2019



## COLLECTIVE ENGAGEMENT FRAMEWORK

### Collective Engagement Framework

The Collective Engagement Framework defines the way the Forum manages collective engagements. The Framework puts in place a legal, operating and governance structure to manage the key risks, and flags key points or circumstances during engagements that might require heightened procedures. The Framework has been specifically designed to take into account:

- The need to safeguard against dissemination and creation of inside information, inadvertently or otherwise;
- The creation of concert parties under the City Code or triggering group filing requirements under Section 13 of the U.S. Securities Exchange Act; and
- The 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.

The 2019 update to the CEF takes into account developments relating to competition law, regulation and practice. The new CEF includes more detail on how we consider our practices relating to competition law. We have also conformed wording to align more closely to that in the Market Abuse Regime.

The Forum's internal procedures for conducting Collective Engagements are regularly reviewed against the Framework.

### 10 Key features of the Collective Engagement Framework

1. **TRUSTED FACILITATOR, NOT AN ADVISER** – Members retain full voting and other investment rights in respect of their shareholdings. No control is ceded to the Forum or other Members.
2. **OPT IN/OPT OUT** – A Member actively chooses to participate in an Engagement involving a company in which it is a shareholder. It can also choose to opt out of an Engagement at any time.
3. **COMPLEMENTARY TO MEMBERS' DIRECT ENGAGEMENT** – Members are actively encouraged to continue their direct interaction with companies outside the Forum's auspices.
4. **CONFIDENTIALITY** – Members must agree to comply with confidentiality obligations during an Engagement. Disclosure of identities and public statements must be agreed by participants during an Engagement.
5. **NOMINATED GATEKEEPER** – Members retain full control as to whether or not they receive information, and who receives that information.
6. **HUB & SPOKE MODEL** – A bilateral model is the usual method of communication between the Executive and Members involved in Engagements.
7. **NO INSIDE INFORMATION** – The Forum is not intended to be a means of facilitating the exchange of inside information between companies and Members or among Members themselves. Participation in an Engagement will not exempt any person from any law or regulation governing the use and dissemination of inside information.
8. **NO-CONCERT PARTY AND NO-GROUP** – Members must agree that they will not form a concert party or group in respect of the relevant company while participating in an Engagement under the auspices of the Forum. The Executive will engage with the Takeover Panel and seek specialist advice when required.
9. **HEIGHTENED PROCEDURES** – At various points in an Engagement, heightened procedures may be deemed necessary, including seeking specialist advice.
10. **CONFLICT OF INTEREST AVOIDANCE** – The Forum maintains control procedures to avoid conflicts of interest which could impact either its own governance or individual Engagements.

## MEMBERSHIP

Full membership of the Forum is open to institutional investors in UK-listed companies, including both asset managers and asset owners, irrespective of where the investor is located.

As at 31 December 2019 there were 50 full Members. All except one Member has consented to the publication of their names and a list is given at the front of the report on page 2. The other member has opted to remain anonymous. In 2019 we were pleased to welcome 8 new Full members. Axa Investment Managers decided not to renew its membership. Associate Membership with EY was not renewed given the focus on full Members.

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

### 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

#### Our objective is 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

### Legal Panel

Historically, one of the key challenges in fostering collective engagement by institutional investors has been a concern regarding the inadvertent violation of legal or regulatory requirements. From its inception, the Forum has benefited from extensive pro bono support from a number of leading law firms, who have played a key role in establishing a safe and secure legal and regulatory environment in which to undertake collective engagement.

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

**Davis Polk**



**MACFARLANES**

**Skadden**

## STEWARDSHIP CODE 2020: MAPPING INDEX

Below we signpost how the Forum can help its Members to meet the standards set in the new Stewardship Code. Detailed evidence of their participation in the Forum's activities is available to Members on request.

Principle	Section	Page(s)
<p><b>P1. Purpose, strategy and culture</b>            Becoming a Member of the Investor Forum, and participating in Forum engagements and S-360 activities, provides evidence of actions to enable effective stewardship. Membership of the Forum demonstrates commitment to, and 'implementation of a policy to undertake', collective engagement as part of stewardship activity.</p>	Purpose, Objectives and Key Activities; Activities Review	11, 14-30
<p><b>P2. Governance, resources and incentives</b>            Forum membership demonstrates a commitment to contribute to the investment industry's collective resource for stewardship activities. The Forum's Collective Engagement Framework provides a structure and process to conducting engagements in an efficient and effective way.</p>	Governance and Operations Review	40-45
<p><b>P3. Conflicts of interest</b>            The Forum's structures and membership requirements allow Members to manage actual and potential conflicts of interest relating to engagement activity.</p>	Managing Conflicts; Membership	43;45
<p><b>P4. Promoting well-functioning markets</b>            The Forum is a 'relevant industry initiative' in which Members participate. Members opt in to Collective Engagements, Stewardship Forums and other collective activities which are Member-initiated. The Forum has enabled Members to join a multi-stakeholder approach to issues such as marine plastic waste, working practices and ADR voting.</p>	Promoting Well-Functioning Markets; S-360; How The Forum Facilitates Dialogue	30; 24; 28-29
<p><b>P5. Review and assurance</b>            Members can receive annual statements evidencing their participation in all Forum activities.</p>	Membership	45
<p><b>P6. Client and Beneficiary needs</b></p>	N/A	N/A
<p><b>P7. Stewardship, investment and ESG integration</b>            Forum engagements and S-360 projects typically involve integration of investment considerations and stewardship, including material ESG issues. Insights on material issues gained from the Forum's collective engagement activity, company meetings and S-360 projects can be used by Members to inform investment decisions.</p>	Collective Engagement Report; S-360	14-23; 24-29
<p><b>P8. Monitoring managers and service providers</b></p>	N/A	N/A
<p><b>P9. Engagement</b>            Forum membership demonstrates a commitment to engagement. The Forum reports on completed Engagements, including the basis of selection, engagement objectives, methods; outcomes and lessons learned.</p>	Collective Engagement Report	14-23
<p><b>P10. Collaboration</b>            Forum membership allows Members to participate in collaborative engagement to influence issuers. Participation in Forum engagements and S-360 projects provide evidence of engagement activity and outcomes on both company-specific issues and thematic issues. The Forum reports on completed Engagements, including outcomes, to assist Members' in their own reporting and to demonstrate to other stakeholders the scale of investor engagement.</p>	Collective Engagement Report; S-360; Available Upon Request	14-23; 24-29
<p><b>P11. Escalation</b>            Initiation of, and active participation in, Forum engagements and S-360 projects provides evidence of escalation by Members. Our reporting on Engagement and S-360 activities provides evidence of outcomes.</p>	Collective Engagement Report; S-360; Available Upon Request	14-23; 24-39
<p><b>P12. Exercising rights and responsibilities</b>            The Forum's ADR project (started in 2018 and completed in 2019) has helped members ensure the effective exercise of their voting rights.</p>	ADR Project (2018 Annual Review)	-

- **Executive Director:** Andy Griffiths
- **Chief Operating Officer:** Fiona Ellard
- **Senior Advisers:** Victoria Sant (Company Secretary), Tim Shanagher, Susan Sternglass Noble, Guy Walker
- **Communications Manager:** Maida Richards
- **Finance & Operations Assistant:** Laura Devonshire
- **Independent Governance Consultant:** Paul Lee

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**THE INVESTOR FORUM**

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