



COLLECTIVE ENGAGEMENT REVIEW

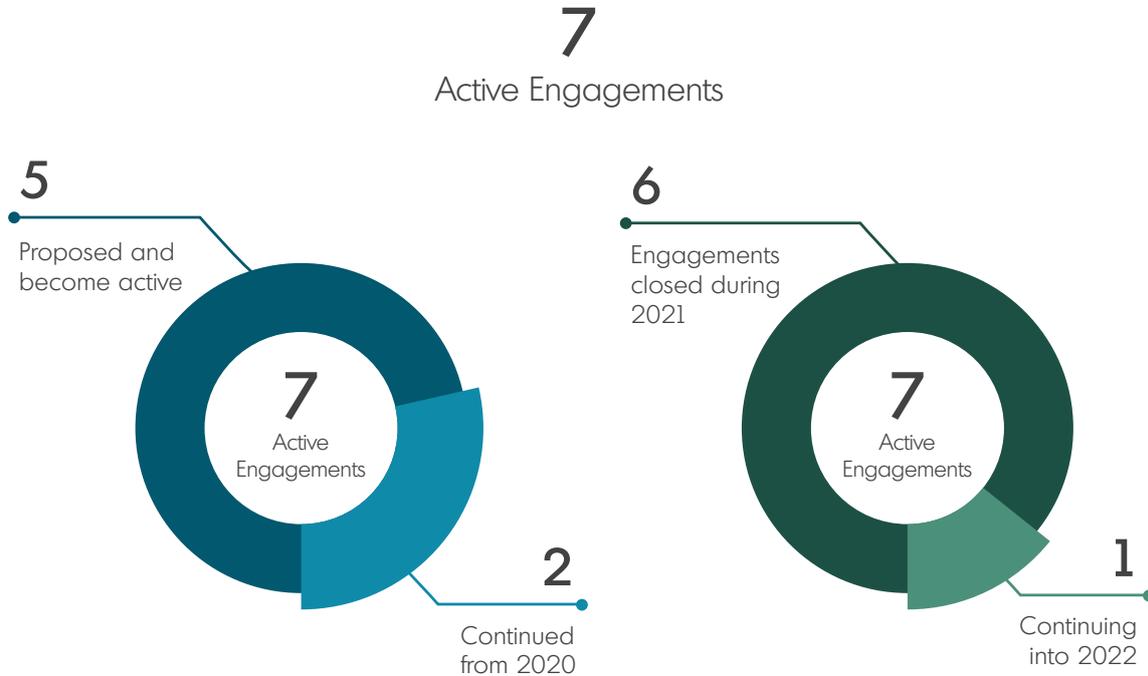
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COLLECTIVE ENGAGEMENT REPORT

Facts and Figures

Activity in 2021:



8

Proposed in 2021 but did not proceed:

- **3** - Were small cap investment funds where critical mass couldn't be established amongst the membership base.
- **2** - Involved a bid situation where there was frustration with the process, but no engagement objective could be defined.
- **1** - Was raised in the context of a corporate action, where the Chair was able to instill confidence following initial unease.
- **1** - Involved a long-standing situation, where no formal engagement was initiated but the Forum was able to facilitate dialogue to clarify priorities and reassure shareholders.
- **1** - May escalate to an engagement in 2022; an initial company meeting has been requested.

Member Participation

During 2021, the Forum:

Worked with



36

institutional investors

Held



86

detailed bilateral conversations* to inform engagements

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Facilitating collective engagement is the primary objective of the Forum. The Collective Engagement Framework and the Forum's approach are recognised by investors as a valuable way to escalate and resolve complex problems. We believe it is a unique and constructive additional stewardship tool that can be used to escalate concerns and address any material issue.

In 2021, engagement activity was narrower than in recent years. The year saw a significant number of corporate actions, with over 20 UK companies being taken private, as well as a significant focus on thematic considerations, rather than company-specific situations. The Stewardship Landscape discussion on page 12 discusses this in more detail.

Our engagement activity covered a range of material issues:

- Board effectiveness and succession - engagements with Informa and BT generated observable outcomes.
- Climate resolutions and strategic response - we engaged extensively with HSBC in relation to its AGM climate resolution and the development of its new coal policy.
- Social license to operate - media headlines in conjunction with the Grenfell Tower Inquiry catalysed an engagement with Kingspan to better understand corporate culture and subsidiary oversight.
- 'Take private' – we were asked to raise investor concerns with Arrow Global but the engagement did not deliver any meaningful impact on the Board's decision to recommend an offer to take the company private.

Case Study	Material Issue	Engagement Focus	Outcome
Arrow Global	Transaction Oversight	Conflicts of interest	No observable impact
BT Group	Chair Succession	Appointment of new Chair	External Chair appointed in a well-executed process
Informa 1	Chair Succession	Highlighting need for Chair succession plans to be implemented	Succession timetable retained during Covid-19 crisis
Informa 2	Board Effectiveness	Board refreshment	3 new NEDs appointed. Refreshment of key roles
HSBC	Environmental Strategy	Climate commitments and implementation	Single resolution agreed. New coal policy published.
Kingspan Group	Board Oversight	Group Board oversight of culture, compliance and reporting by divisions	First time investor access to Senior Independent Director and Audit Committee Chair.

During the year we had a number of informal discussions with Members about possible engagements which did not proceed – some smaller companies which followed the playbook set out in the Governing for Growth project, concerns with SPACs, concerns around bid pricing and event driven situations. In many of these cases, the enquiring investor valued the opportunity to review frustrations with the Forum but either there was not a critical mass of likeminded investors or a bid process evolved naturally without the need

for collective engagement. One international (German) enquiry, in relation to a company in a bid situation, was raised, but market forces corrected the perceived governance failing and a competitive process resulted.

Our monthly Member Engagement Dashboards highlighted 35 companies for discussion during the year, as we sought to highlight key situations and raise awareness of emerging issues with our Members.

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Company meetings

During the year we organized a number of investor meetings with companies, each with a bespoke agenda.

We facilitated climate-focused meetings with Chairs, Non-Executive Directors and Sustainability experts at four companies:

- **Barclays plc** - we hosted two meetings to build on the climate-focused Collective Engagement which we completed in 2020. The meeting agendas covered reputation, purpose and the s172 report, Board evolution and other governance matters, and a review of the Bank's key climate commitments. The discussions allowed investors to follow up on the commitments that had been made at the 2020 AGM and to assess progress.
- **HSBC Group plc** – following an approach from the company, we hosted a meeting to discuss the proposed climate resolutions, and a second meeting to follow up on progress made in implementing a new coal policy.
- **Climate Transition Action Plans - BHP Group plc** and **Unilever plc** both put plans to shareholders for a vote at their AGMs. We organised group meetings with both companies to allow investors to scrutinise the plans in order to make informed voting decision.

We completed a detailed review of Member perspectives on **GlaxoSmithKline plc**, which resulted in the company asking us to facilitate a shareholder meeting with the Chair and Senior Independent Director in October.

We hosted two meetings with **Kingspan Group plc** during the course of the engagement – one in December 2020 with the CFO and one in April 2021 with the SID and Chair of the Audit and Compliance Committee. Investors were pleased to establish a dialogue with the Non-Executive Directors and are hopeful that this channel of board-level communications continues under the new independent Chair.

Our engagement with **Boohoo Group plc** was closed at the end of 2020, but we continued to actively monitor developments. In advance of the 2021 AGM, with proxy agencies recommending votes against the co-founder and the remuneration report, we hosted a meeting with the Deputy Chair and 12 investors to inform voting decisions.

We continue to build a reputation for facilitating high quality meetings between leading investors and senior Board members and executives at companies. We provide a forum to discuss complex issues with a view to creating practical solutions to address material issues. This capability is increasingly valued by companies and stewardship teams and we plan to further develop this platform in 2022.

Case Study: Tesco - Potential shareholder resolution on healthy eating

In February ShareAction co-ordinated the filing of a shareholder resolution by a group of institutional and retail investors in their Healthy Markets Coalition, calling on Tesco to set targets to increase the proportion of healthy products in its sales.

Tesco committed to increase sales of healthy products in its UK and Irish stores by 2025, but ShareAction kept its resolution on the table to encourage Tesco to take similar steps with its Central European stores and its Booker wholesale subsidiary. A number of Tesco investors asked the Forum to speak with other investors, ShareAction and Tesco to clarify understanding and expectations. Many investors recognised that Tesco was committed to taking action on this agenda and had demonstrated progress in an ESG strategy update. There was appetite amongst shareholders for Tesco and ShareAction to reach agreement and avoid the need for the shareholder resolution.

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Case studies

On the pages that follow we provide case studies of the engagements which were completed during 2021. We have again sought to balance the, sometimes competing, needs for discretion and transparency.

We note that the Stewardship Code calls for disclosure of progress of ongoing activity. However, it is our policy not to report on engagements that are active.

The disclosures that follow add to our record of transparent reporting since we began to engage in 2015. This 7-year public track record of collective engagement is unique, and it provides tangible evidence of the stewardship capabilities of our members. The track record helps to demonstrate the value of collective engagement as a tool for investors to escalate concerns with Boards and, where necessary, to catalyse change.

Conflicts of Interest management – Case Study

In 2021, we were asked by Members to engage with **HSBC Group plc**, the parent company of HSBC Global Asset Management – one of the Investor Forum’s founding Member firms. When the engagement was proposed, we implemented ‘heightened procedures’, as described in our Collective Engagement Framework, and documented the actions taken in the Engagement Registry. HSBC GAM were informed in advance that we planned to initiate the engagement and were invited to the company meetings. We are confident that neither the engagement approach, nor the outcomes achieved with HSBC Group plc, were impacted by the pre-existing relationship or any potential conflicts with HSBC GAM.

COLLECTIVE ENGAGEMENT REPORT

Engagement Process



Member Proposal

- What is the level of Member interest?
- Is a constructive solution possible?

Members escalate their engagement candidates to the Forum. The Forum will initiate a collective engagement if it meets the criteria set out in the Collective Engagement Framework, and if there is support from a critical mass of shareholders.



Initiation

- Consult with Members
- Develop a strategy
- Draft a letter to company
- Target constructive, tangible outcomes

The Forum will invite all Members to opt in to an engagement. An engagement strategy will be developed with clear objectives and targeted outcomes, based on perspectives from portfolio managers, credit analysts and ESG teams at Member firms.



Engagement

- Share Members' views with company
- Two-way Dialogue

Each engagement is bespoke. In the majority of cases, the Investor Forum writes to the Chair 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. Further letters may be sent, depending on the company response.



Monitoring

- Follow due process
- Monitor developments
- Regular contact with participants and the company

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" – e.g. 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. As circumstances change, the Forum maintains contact with participants and keeps in touch with the company to provide regular input.



Conclusion

- Evaluate outcomes
- Identify Lessons Learned

The Forum consults Members before closing an engagement, and then shares a Closing Note, which evaluates outcomes against objectives. The Forum seeks feedback from all participants to evaluate the process and learn lessons to inform future activity.

Company: BT GROUP PLC	Oversight (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational Performance	Management Information	Reporting & Communication
		✓		✓				
Timeframe: Mar 21 – Sep 21		Size: FTSE100	Number in Engagement: 9		Combined Shareholding: 16%			

Basis of Selection

Why did the Forum engage?

- A Member approached the Forum following press speculation regarding a candidate to be the next Chair. A consultation revealed that a critical mass of BT shareholders felt that, following the surprise announcement of the departure of the incumbent Chair, a strong external candidate was needed.
- Investors wanted to express their view that, given the strategic and operational issues facing BT, the Board had a vital role to play in overseeing strategy, key relationships and, where necessary, to provide challenge to the executive team.

Objectives

What did the Forum engage on?

- We sought clarity from the SID about the Chair recruitment process and the criteria identified for a new Chair. We relayed the view that an external hire was preferred, and the importance investors placed on the Chair's capacity to oversee a difficult change programme, to build a positive relationship with the CEO, and to balance complex stakeholder interests.

Engagement Methods

How did the Forum engage?

- The Forum built an engagement strategy based on the key issues identified in discussion with Members. A collective letter was written to the SID on behalf of 9 members and a frank and constructive meeting was held to share feedback and review the selection process.

Outcomes

What did the engagement achieve?

- In August 2021, the company announced the appointment of an external Chair who had experience of chairing several large companies, as well as being a former CEO of a large, regulated UK company. Whilst some investors had concerns about over-boarding, the appointment was welcomed.

- In light of these concerns, in closing the engagement, we sought assurances that BT Group would be the candidate's main priority, given the demanding nature of the role of chair at BT Group.
- The engagement successfully achieved its narrowly defined, but important, objective in a timely manner, delivering a clear collective message to the Board for input into the selection process.

Lessons Learned

What has wider applicability?

- Succession planning is vital. When investors have strong views on the suitability of individual candidates, collective engagement is an efficient and effective way to escalate concerns.

Company: INFORMA PLC	Oversight (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational Performance	Management Information	Reporting & Communication
		✓		✓				
Phase 1: Timeframe: Jun 20 – Jan 21 Size: FTSE100 Number in Engagement: 12 Combined Shareholding: 12%								
Phase 2: Timeframe: Jun 21 – Nov 21 Size: FTSE100 Number in Engagement: 17 Combined Shareholding: 22%								

Basis of Selection

Why did the Forum engage?

- In recent years, Informa has been the subject of a series of large votes against at its AGMs. It is one of only 10 companies to appear on the IA Public Register every year since the register’s inception.
- The Forum was asked by Members to engage with Informa in two phases:
 - Phase 1: To address Chair succession - In January 2020, the Board announced that the long-tenured Chair would step down, but suspended the succession process in March 2020.
 - Phase 2: To address Board refreshment and long-standing remuneration concerns - Chair succession in June 2021 provided an opportunity to engage on Board refreshment and shareholder relations..

- Concerns were raised over the effectiveness of the Board, and as well as the overall culture and the company’s attitude towards shareholder engagement. The Investor Forum sought views from its Members, and approached other large shareholders, to evaluate the need for escalation.
- In the second phase, with a larger group of shareholders participating, a collective letter was written to the Chair outlining a range of concerns. We had a meeting with Chair and had a series of follow up calls with the IR Director to discuss progress on Board refreshment and new NED appointments.

Objectives

What did the Forum engage on?

- The objective of the first phase was to express the need for a timely appointment of a new Chair, and for the new Chair to oversee the remuneration policy consultation, given the 2019 AGM vote.
- The objectives for the second phase were to place on record the desire for constructive engagement in the forthcoming remuneration consultation, highlight investor support for Board refreshment, and articulate expectations to improve the effectiveness of Board engagement across the institutional shareholder base.

Outcomes

What did the engagement achieve?

- Phase 1:
 - Shareholders remained supportive of the company and many had direct dialogue with the Chair, but felt that the collective expression of concern regarding the succession timetable and the remuneration policy was important. With the announcement of a new Chair in January 2021, the engagement was paused in advance of direct investor meetings with the new Chair.
- Phase 2:
 - At its 2021 AGM, the company once again received a significant vote against resolutions on remuneration issues. The decision to adjust the 2018 LTIP award was particularly controversial. An increasing number of shareholders chose to vote against not just policies and reports but also individual Directors who were members of the Remuneration Committee.

Continued >>>

Engagement Methods

How did the Forum engage?

- In the first phase, the Investor Forum wrote to the Senior Independent Director expressing participants’ concerns. The company’s response gave assurances that it was “well progressed” on the Chair succession and remuneration policy and committed to publicly update the market.

- The new Chair quickly delivered on his commitment to refresh the board with the appointment of three new NEDs. The new remuneration committee chair has fresh HR executive experience at a FTSE100 company and, after a gap, a new SID has also been appointed. There have been clear statements about the Board's intention to develop a more constructive conversation with all shareholders in order to achieve a broader consensus on remuneration than was previously achieved.
- The company still has much to do to reset relations between shareholders and the Board, and the upcoming remuneration consultation will be indicative of whether it can listen to concerns and better navigate the split view within its shareholder base on the issue of restricted shares schemes.
- Investors enter the new discussions satisfied that Informa has recognised their concerns and is open to genuine consultation. That said, it is possible that the company could once again see significant votes against at its 2022 AGM, particularly as retrospective changes were also made to the 2019 LTIP when the group deployed cash targets for all LTIP's in early 2020.
- We will continue to monitor developments and follow up with investors and the company in 2022.

Lessons Learned

What has wider applicability?

- Engagements with companies can extend over long time periods and may involve a number of phases, as time is needed for the company to address issues and formulate responses. It is important to have clear objectives for each phase of engagement.
- Consistent appearances on the IA Public Register can be a flag that serious underlying issues merit attention, even if individual resolutions receive the necessary support to pass.
- Investors are increasingly voting against policies, and also questioning Board effectiveness, and will vote against individual Directors if they are not satisfied that underlying issues are addressed.
- Whereas votes express messages of concern to companies, follow up engagement and escalation are essential to deliver effective outcomes. We consider this further on page 35.
- Closure of a phase of collective engagement does not always mean that investors are satisfied; ongoing monitoring and further phases of engagement are often felt necessary, but collective engagement should not be open-ended.

Company: HSBC GROUP PLC	Oversight (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational Performance	Management Information	Reporting & Communication
	✓			✓				✓
Timeframe: Jan 21 – Mar 21		Size: FTSE100	Number in Engagement: 20		Combined Shareholding: -17%			

Basis of Selection

Why did the Forum engage?

- HSBC approached the Investor Forum to help inform its response to a shareholder resolution and to facilitate an investor meeting to discuss the banks' new climate commitments.
- Members then asked the Forum to facilitate an engagement to provide feedback on investor priorities and to encourage a constructive and ambitious response to the resolution.

- The engagement was closed following the AGM, but HSBC and the Investor Forum remained in close contact to discuss progress on the coal policy, implementation, reporting and 'say on climate' ahead of publication in December.
- In December, the Forum hosted a Member meeting with the CEO to discuss the new Coal Policy and to continue the investors dialogue. This tangible follow up on the AGM commitments gave shareholders an opportunity to input into HSBC's thinking on how to structure a 'say on climate'.

Objectives

What did the Forum engage on?

- Investors wished to record their support, and expectations, regarding the need for tangible action on net zero targets. The engagement focused on coal financing policy, client transition, and reporting and milestones and encouraged the Group to consider how do deliver a 'say on climate'.
- There was also a clear preference expressed for HSBC to negotiate a single AGM resolution if possible rather than ask investors to consider competing resolutions at the AGM.

Engagement Methods

How did the Forum engage?

- At the request of the company, the Forum facilitated a shareholder meeting with the Chair, CEO and climate experts with a bespoke agenda. Specific, challenging and constructive feedback was provided.
- The Forum wrote to the Board to place on record the important need for HSBC to make significant climate commitments, and to encourage an effective response to the shareholder resolution.

Outcomes

What did the engagement achieve?

- The engagement and investor insights were welcomed by the Board and the clear messages from investors collated by the Forum helped to inform the Board's decision-making.
- HSBC responded positively to the shareholder resolution and was able to agree a single resolution, with commitments on coal and tangible targets.

Lessons Learned

What has wider applicability?

- Transformation on the scale required does not easily distil into media headlines or AGM resolutions, Collective engagement has an important role to play in testing and building conviction in the commitments that companies make.
- Much can be achieved if companies and investors work together on complex issues such as climate to develop a common understanding and agree a pathway.
- It is important that companies engage constructively on shareholder resolutions. Investors have a preference for a single resolution wherever possible rather than being asked to choose between competing texts. This requires a significant commitment to engagement by companies with a range of shareholders and stakeholders, not just with the largest investors in the company.
- Shareholders expect companies to follow through on commitments with robust implementation plans which demonstrate action to meet net zero targets.

Company: KINGSPAN GROUP PLC	Oversight (by the Board)					Execution (by the Management team)		
	Strategy	Leadership & Succession	Capital Allocation	Corporate Governance	Corporate Action	Operational Performance	Management Information	Reporting & Communication
				✓		✓	✓	
Timeframe: Nov 20 – May 21 Size: ISEQ Number in Engagement: 12 – 14 (total 17) Combined Shareholding: 21%								

Basis of Selection

Why did the Forum engage?

- Concerns emerged from the Grenfell Tower Inquiry hearings, centering on the Group board’s oversight of subsidiary companies, the culture within a certain division, and the industry’s license to operate. While investors generally had strong relationships with the Executive team, given the profile of the issues raised engagement with Non-Executive Directors, where relations were much less well developed, was targeted.

Objectives

What did the Forum engage on?

- The engagement objectives were initially focused on gaining insight, and in particular access to Non-Executive Directors, to inform investor views, rather than engaging for change. Investors wished to hear the company’s perspective on recent newsflow, and to evaluate the actions being considered.
- As the engagement evolved, we encouraged the Chair-elect to engage proactively with investors and highlighted the issues of particular concern – most notably around Board oversight of subsidiaries, culture and remuneration.
- We also sought clarity on the actions being taken to implement the recommendations of a Board-commissioned independent review.

Engagement Methods

How did the Forum engage?

- The Forum facilitated two group meetings for participants - one with the CFO and one with the SID and Chair of the Audit and Compliance Committee. A series of collective letters ensured that the non-executives were aware of investor concerns, and escalated the request for the Board to be more accessible to investors.

Outcomes

What did the engagement achieve?

- Collective engagement provided increased access to the Kingspan Board, provided insight into the

actions being taken, and established a dialogue with the Non-Executive Directors.

- The company welcomed the engagement, though was understandably cautious given the on-going Inquiry. The engagement helped investors form a framework to assess whether the company was able to “rebuild trust”, and informed voting decisions prior to the 2021 AGM.
- The group meeting established a precedent for non-executive dialogue. The SID committed to an ongoing dialogue between the independent Board members and institutional shareholders.
- The company has taken action to address the concerns that emerged from the Grenfell Tower Inquiry hearings, and the effectiveness of the actions taken will be evaluated over time.
- Investors will need to rely on effective Board oversight of the culture and activities of subsidiary companies and strong internal controls to prevent a repeat of the acknowledged failings.
- The Forum continued to monitor the implementation of the improvement plan, developments with the Inquiry and any implications for Kingspan.

Lessons Learned

What has wider applicability?

- There was a clear benefit to investors from access to non-executive directors to give additional insight, even though there was strong support for the management team and a very proactive investor dialogue.
- In light of the additional scrutiny that shareholders face when the reputation of portfolio companies is challenged by negative newsflow, there is value:
 - to investors in demonstrating how concerns are escalated, to hold the Board to account, and the steps taken to encourage any improvements in governance structures;
 - to non-executive directors in engaging with shareholders to ensure that they have a clear understanding of investor concerns.
 - to the company to having an opportunity to clarify its position and to address issues which it feels may have been misreported.

ENGAGING DURING BID SITUATIONS

Company:	ARROW GLOBAL PLC
Timeframe:	March 21 – May 21
Number in Engagement:	5
Size of Company:	FTSE All Share
Combined Shareholding:	17%

We were asked to highlight shareholder concerns around the emergence of, and the Board's approach to, a proposed 'take private' bid. Participants sought assurance that the Board would act in the best interests of all shareholders when considering a recommendation.

The shareholders joining the engagement believed that the investment thesis for Arrow Global remained attractive, with a diverse portfolio of investments and a strong management team, and were concerned that the proposed bid did not fully reflect the value of the opportunity. These investors had already expressed their views directly to the company but asked the Investor Forum to amplify and place on record their key concerns.

Investors were concerned about the process which led the Board to consider recommending an offer for the company, and wanted additional clarity

to evidence the basis on which the Board might recommend a proposed offer. We requested that the Board communicate the steps taken to ensure Directors had fulfilled their duties, including publication of an independent review of the valuation. We asked that the Board engage with shareholders following publication of the annual results to effectively address outstanding concerns regarding the value of the proposed bid for Arrow Global.

The Forum wrote to the Chair. The CFO and the company's advisers made contact to understand the background to the letter, and to provide assurance that the appropriate process had been followed but no meaningful engagement took place.

No observable changes were made to disclosures or price, and the transaction was ultimately approved by 93.8% of the shareholders that voted.