



EXECUTIVE DIRECTOR REVIEW



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2021 proved to be one of the most dynamic years for our society, for UK companies and of course for investors. As the world began to open up again after the initial phases of the pandemic and the implications of the climate challenge came into sharp relief, the pace of change was relentless.

For the Investor Forum it was a seismic year. We were deeply saddened that Simon Fraser, our founding Chair, passed away in August after a short illness. The acknowledgements of Simon's huge contribution to the investment world and the expressions of support from our community were an enormous source of strength for his family and for all of us at the Investor Forum. In recognition of Simon's lasting impact, we have launched the 'Simon Fraser Stewardship Award' to recognise outstanding individual, or collective, stewardship activity. The award will be made at the Investor Forum Annual Event each January.

We had announced Simon's intention to retire in April, and we were delighted to welcome Michael McLintock as the new Chair in October. Michael shares our passion for stewardship, which informs everything that the Forum does and we are privileged to be able to draw on his experience as both an investment leader and a company chairman.

In this, our sixth review, we reflect on our activity over the last twelve months as well as:

- Significant issues which are transforming the investment world
- The value of company specific engagement
- The Investor Forum's priorities for 2022 and beyond

Significant issues which are transforming the investment world

The health of UK public markets. In 2021 there were over 20 take private bids in the FTSE 350. Although we have seen a welcome opening of the IPO market, it is clear that many companies see merit in being privately owned. Activist

campaigns were launched against six FTSE 100 companies, as the case to simplify some of the UK's largest companies was forcefully made.

The changing stewardship landscape. The emergence of a broad range of ESG issues, pressure on investors, regulatory scrutiny, and competition, is changing the landscape dramatically. We have seen a move by investors to use their voting rights more assertively and to broaden their engagement to cover more E & S issues - particularly, climate, diversity and employee rights. The shift in priorities that emerged in 2021 is nothing short of remarkable. Our review of Member Stewardship Reports suggested that investors are active across a broad range of stewardship themes - an almost unrecognisable vista when compared to the traditional focus on governance which dominated the landscape in 2014 when we were established.

Investors are privileged to occupy a position of significant influence and, in a period of huge economic and social change, it is essential that this influence is used wisely and in accordance with client mandates. Given the importance of this responsibility, we explored these issues in a year-long collaboration with the LBS Centre for Corporate Governance to consider 'What does Stakeholder Capitalism mean for investors?'

The climate challenge. We made the case last year for the benefits of investors having a 'say on climate'. We continue to believe that companies need to clearly articulate climate transition strategies, and that an investor vote to signal support, or otherwise, for that strategy has significant value. The emergence of climate action transition plans to underpin climate ambitions is encouraging, but 2021 offered a glimpse of how complex voting on climate issues will become. This added detail is welcome and is likely to support far more valuable scrutiny than is possible with shareholder resolutions alone.

The challenge for investors in evaluating these early plans is substantial. We believe there is a need for companies and investors to partner in a conversation that:

- focuses on how to deliver the required change by 2050, while providing tangible milestones;
- takes a genuinely long-term view;

EXECUTIVE DIRECTOR REVIEW

- demonstrates that business is part of the solution not part of the problem.

Our recent engagement on shareholder resolutions with Barclays and HSBC and the dialogue we facilitated with BHP brought senior investors and company chairs together in the kind of conversations which support the scrutiny of climate commitments, and the subsequent delivery of agreed actions.

The Race to Zero and GFANZ initiatives have catalysed significant increases in commitments from asset owners, asset managers and companies, as well as the important advances on climate reporting with the establishment of the ISSB. Ultimately though, it will be the actions of individual companies that matter. It is clear that civil society, NGOs and activists are suspicious of ‘greenwashing’ and far from convinced about the pace of change or the credibility of the commitments. This is a challenge for all of us, and, rightly, it is far from comfortable.

The value of company specific engagement

Engagement is a key pillar of investor stewardship, but the term covers a very wide range of activities¹. As the call for engagement on a widening range of issues grows, we must focus on material issues and approaches that can deliver impact and practical outcomes. To be effective, engagement must focus on solutions, not simply on reiterating known problems.

With conflicting concerns between companies and investors over remuneration schemes, continued high scrutiny of investor voting patterns, the need to debate climate responses and the likelihood of more shareholder resolutions, the 2022 AGM season could be one of the most challenging on record. The gap between shareholders and companies on a number of issues is widening, and the importance of constructive dialogue cannot, therefore, be understated.

Why does company specific engagement matter? We have seen a significant rise in ‘Dear Chair’ letters to listed companies, issue-specific campaigns and company ‘naming and shaming’. While most of these engagement approaches

play out in the public domain, in our view the most complex issues rarely distil into media headlines.

In our experience, public pronouncements and voting actions alone are not enough to deliver impact. A focus on solutions, careful negotiation and mutual respect are all required. Wherever possible, our approach seeks to avoid any public comment on an active engagement case. Trust and discretion enable the tough discussions that are essential to deliver outcomes from engagement; it is not easy.

Our focus on solutions. We fundamentally believe in the importance of bespoke company specific engagement. The value of our model and the track record of engagement outcomes is evidence of what can be achieved when investors collaborate. The Forum is most effective when a material issue needs to be escalated and when we can work with shareholders and companies to create solutions to problems. In 2021, we were active in:

- Making the case for board renewal at Informa plc
- Clarifying investor expectations for Chair succession at BT Group plc
- Encouraging ambitious climate commitments and a new coal policy at HSBC Group plc
- Opening up NED access at Kingspan Group plc to discuss the response to the Grenfell inquiry

Overcoming barriers to engagement. As the calls for more engagement increase, investors must always act professionally to manage conflicts of interest, avoid risks of acting in concert and creating or exchanging non-public information. The Investor Forum Collective Engagement Framework is a key mechanism to give investors confidence that they can collaborate in a safe and secure manner.

Since the introduction of the Market Abuse Regime (“MAR”) in 2016, investors have become increasingly reticent to exchange views and to work together. In 2009, the Takeover Panel issued Practice Statement 26, in direct response to calls for shareholders to be more active in holding companies to account in the aftermath of the banking crisis. The swift action by the Takeover Panel to clarify its position on “acting in concert”

¹ Engaging the Engagers, Investor Forum, June 2020

EXECUTIVE DIRECTOR REVIEW

provided great comfort to Investors. As the call for engagement increases across a broad range of ESG issues, we believe that we have reached a similar position in 2021 - investors require greater clarity from the FCA on the interpretation of the MAR rules to empower collective engagement activity.

Investor Forum priorities for 2022 and beyond

We have proven the value of collective engagement, but we clearly recognise that the range of issues which require stewardship attention have risen significantly. In conjunction with our Members, we have therefore identified five priorities which build on the strengths of the Forum and the reputation that it has built for effective dialogue. Our strategic priorities are summarised below and discussed in more detail later in this report.

2022 Strategic Priorities

We will:

- Provide a forum for serious, constructive, conversations to address material issues
- Focus on delivering exceptional engagement outcomes to address the most material issues
- Convene expert working groups to address thematic issues or market failings through S-360 projects
- Use our platform to encourage companies to implement effective climate commitments
- Focus on efficient and effective Governance and escalate contentious votes

The Investor Forum Development Programme – looking to the future

We are proud of the first cohort that completed the Investor Forum Development Programme, which aims to provide opportunities for a diverse group of individuals within Member firms to build skills and networks to equip a new generation of stewardship professionals. We are committed to providing practical opportunities to increase the ethnic diversity of our key contacts and I am enormously grateful to Habib Annous and the entire Investor Forum Team for volunteering their time to deliver this programme. Read more about this on Page 52.

Conclusions

Change brings opportunity and investors will play a vital role in allocating capital and engaging with companies to create value. We are at the early stages of a 30-year revolution and I firmly believe that public markets are essential to financing a just transition to a net zero economy.

We have been fortunate since our inception in 2014 to count on the support of our Members, which have grown to 56 by the end of 2021, and the insights that they share with us. We have also been guided by an experienced and supportive Board drawn from across the investment, corporate and academic worlds. I am very thankful for the commitment of my colleagues in the Investor Forum team, and for their collective experience, dedication and flexibility.

Simon Fraser believed that there was no problem that could not be solved if you could get the right people around the table, and it is that spirit which will continue to guide our actions. We believe in the power of dialogue and, if we are serious about addressing the challenges that face the investment world and broader society, then the need for effective dialogue has never been greater.

We will use our convening power, experience and the knowledge and insights of our Members to engage with companies to discuss the most complex issues. We will constructively encourage and support the change needed, and help demonstrate that investors and companies are indeed part of the solution.

Andy Griffiths

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