



STEWARDSHIP ACTIVITIES

- *Facilitating Dialogue*
- *Stewardship-360 Projects*
- *Promoting Well-Functioning Markets*



FACILITATING DIALOGUE

Facilitating dialogue is one of the main objectives of the Investor Forum. In 2021, this was an area of particular focus through:

- Bespoke events, such as our Four O'clock Forum series; and
- Convening company meetings.

Four O'clock Forums

In March 2020, the Investor Forum launched a series of virtual events for Members to provide opportunities to engage with expert speakers on important ESG issues to expand knowledge and build expertise which can in turn inform stewardship activity.

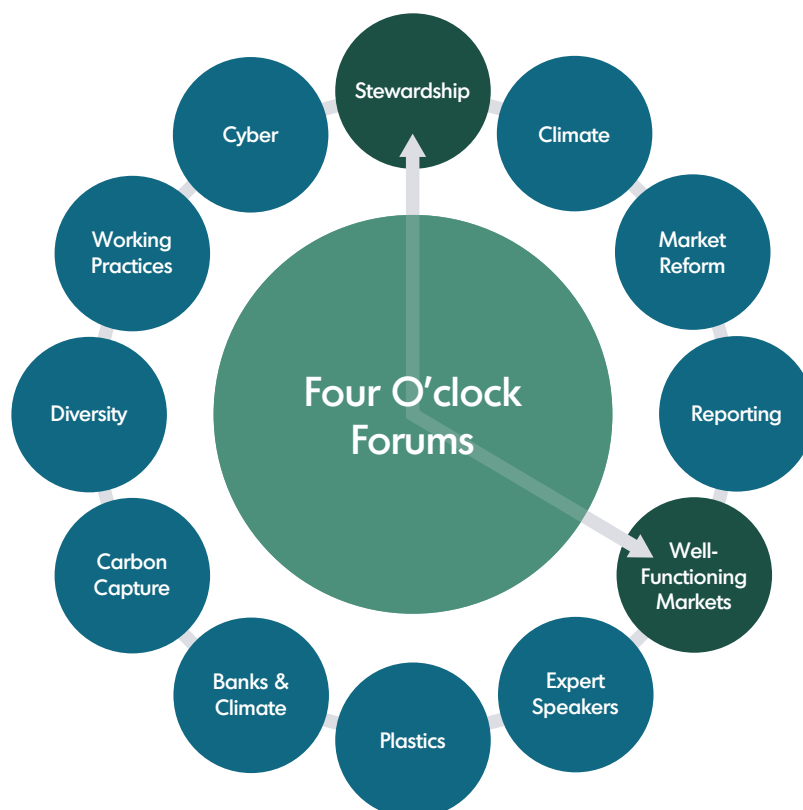
In 2021, we held 19 Four O'clock Forums, with 663 attendees representing 52 Member firms attending.

As part of the 2021 series there was a continued interest in climate-related issues and half of the series was dedicated to providing opportunities to hear from, and question, prominent climate experts. The urgent need to address the climate

challenge is clear and we believe investors will significantly step up their level of engagement with companies on this topic in 2022.

Highlights of the year included:

- **'E': Climate policy and reporting** – with the Climate Change Committee, Sustainable Markets Initiative, CDP and expert research groups
- **'E': Carbon Capture and Storage** – various discussions with academics, policy makers and Royal Dutch Shell
- **'S': Diversity** – with Women on Boards
- **'S': Sustainable Procurement** – various speakers, from companies, consultants and industry bodies
- **'S': Modern Slavery** – with the Independent Anti-Slavery Commissioner
- **'G': Markets, Audit and Corporate Governance Reform** - with Lord Hill and Sir Jon Thompson, Director of the FRC



FACILITATING DIALOGUE

Company meetings for Members

The Forum facilitates meetings with companies to address issues of specific concern to members.

Member meetings with, primarily, non-executive directors are valuable for investors and efficient for companies.

- These meetings increase confidence that the Board is fully aware of the focus of investors and the nature of any concerns and help investors gain clarity on Board priorities.
- A bespoke agenda, curated and facilitated by the Investor Forum, creates the opportunity for a focused and positive discussion, even if challenging issues need to be discussed. It is time and resource efficient and creates goodwill on both sides.

Investor Forum-facilitated group company meetings

Over the last 3 years we have hosted a number of company meetings, primarily in a virtual context. To ensure clear objectives, rather than simply add another meeting to congested diaries, we have focused on four distinct areas:

- **Engagement-Specific meetings – active escalation to address engagement objectives**
 - Gain information and insight in response to a concern, event or emerging issue.
 - Review progress as part of, or at the conclusion of, a collective engagement.
- **Vote-Specific meetings – inform and hold to account**
 - Pre AGM – seek evidence and clarity to inform voting decisions (e.g. on contentious proposals or shareholder resolutions).
 - Post AGM – seek to better understand and resolve outstanding concerns.
- **Issue-Specific meetings – ad hoc meetings to facilitate dialogue**
 - Address company-specific issues or broader concerns (e.g. discuss findings of an independent review; scrutinise climate commitments).

- **Thematic meetings – educational focus, to inform Members or consider market-wide issues**

- Explore best-practice and learn from corporates. These may be as part of a S360 project, or as a Four O'clock Forum on a key theme (e.g. CCS, working practices).

Future focus

The Public Register of shareholder votes was set up by the Investment Association in 2017 to track shareholder dissent at listed companies. The Public Register details companies in the UK FTSE All Share that have received significant opposition (20%+) by shareholders to a resolution. A number of companies have featured on the Register for consecutive years, and we have noted significant variations in the quality of the responses by companies.

The 2018 UK Corporate Governance Code introduced a requirement for companies entered on to the Register to publish an update within six months of the shareholder meeting to identify and address the concerns expressed by shareholders.

Following discussion with our Members, in 2022 we will propose an enhanced collective engagement focus on companies where voting patterns register material concerns. In these cases, we will seek to identify an effective response to the concerns raised.

Such an approach would provide an escalation mechanism to demonstrate how investors follow through on their voting actions with collective engagement.

Our approach would:

- Convene companies and investors to address unresolved issues;
- Provide a neutral forum focused on identifying a solution, rather than defending a recommendation or advocating for a position;
- Demonstrate that strong messages in voting actions should not be ignored, while respecting the democratic outcome where a resolution has passed;
- Enable investors and companies to use time effectively to address persistent or significant concerns.

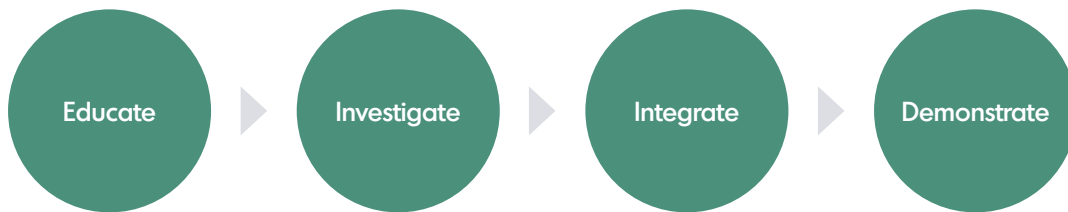
STEWARDSHIP 360 (S-360) PROJECTS

The Stewardship 360 (S-360) programme brings investors together to collaborate on wider material 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 themes which are important to Members. Projects also focus on promoting well-functioning markets, or addressing wider stakeholder issues.

We focus our in-depth S-360 project work on areas where the Forum can make a unique contribution, rather than duplicating existing initiatives. The focus is always practical with the objective to extend, develop and share best practice.

The approach to S-360 projects is best described as:



This structure allows the flexibility to address issues in differing degrees of depth, depending on the outcome being sought, while maintaining discipline in terms of the time and resources spent.

In 2021 we undertook a number of S-360 projects, spanning environmental, social and governance themes which allowed the Forum to contribute to the debate on the broad range of factors that can impact long-term sustainable value and support good stewardship activity.

Project update: S-360 - Working practices

Our on-going focus on working practices and modern slavery continued during the year, with a focus on supply chains and sustainable procurement.

The Independent Anti-Slavery Commissioner spoke at a Four O'clock Forum about her report "The role of the financial sector in eradicating modern slavery". One of the recommendations made in the report is around investor collaboration, and the Forum is pleased to support CCLA's "Find it, Fix it, Prevent it" initiative.

During the year, we have joined various roundtables to share the investment industry's perspective and learn from experts and survivors. These include one with the Home Office to feed into the UK Government's review of their 2014 Modern Slavery Strategy, and also a number with the Modern Slavery & Human Rights Policy and Evidence Centre to discuss data needs in this area.

S-360: TACKLING MARINE PLASTIC POLLUTION



PAS 510 Key Features:

- Available to download and use free of charge from BSI online shop.
- A comprehensive, risk-based, performance standard applicable internationally.
- Sets out requirements for the handling and management of plastic pellets
- Covers organisational responsibilities, competence, training and awareness, risk assessment of pellet loss to the environment and operational controls.
- Can be easily integrated into a company's existing auditing processes.
- Third party verification of compliance against PAS 510 requirements can raise the profile of a company's environmental sustainability credentials and position the company as a leader in the supply chain.
- Builds on the voluntary Operation Clean Sweep programme; OCS guidance can be used to inform compliance with PAS 510.

Plastic pollution is a key environmental issue on investors' ESG agenda. Over the last 3 years, the Investor Forum has brought together investors to catalyse a new technical standard which aims to eliminate plastic pellet leakage into the environment.

PAS 510: 2021 – launched in July 2021 - means that companies can now take a fully auditable and verifiable risk-based approach to eliminating pellet loss, and demonstrate compliance with best practice.

A commitment to company engagement

Investor scrutiny can play an instrumental role in putting pellet management on the agenda for buyers and end users of plastic. The investors co-sponsoring the PAS have committed to engage with portfolio companies to encourage them to adopt the practices codified in PAS 510, and partner only with suppliers who have made similar commitments. As stakeholders in businesses that are directly or indirectly responsible for microplastic pollution, these investors hope the new standard will help to change company behaviour, prevent avoidable direct sources of microplastic pollution from entering the marine environment and deliver positive real-world impact.

Long-term multi-stakeholder collaboration

In 2018, boutique asset manager McInroy & Wood asked for the Investor Forum's assistance in coordinating an engagement with the standard setting agencies, and 18 investors signed a letter calling for new standards to codify best practice in pellet management.

BSI suggested that a "Publicly Available Specification" (PAS) be sponsored to enable a fast-track delivery.

Nine institutional investors, co-ordinated by the Forum, agreed to provide financial backing to advance the development. They were joined by the Scottish Government's Marine Scotland agency, who brought the political and regulatory perspective, and the British Plastics Federation, representing the plastics industry, forming a co-sponsor group that had broad multi-stakeholder support.

S-360: TACKLING MARINE PLASTIC POLLUTION

The investor group funded a team from conservation charity Fauna & Flora International (FFI) to act as the steering group expert on their behalf. FFI is one of the core NGO partners of the Commonwealth Clean Oceans Alliance formed to address Sustainable Development Goal 14 – “Life below water”, and have long campaigned for a supply chain approach to eliminate the potential for pellet loss.

The Steering Group which oversaw the drafting of the PAS wording comprised plastic pellet producers (INEOS), logistics operators, and retailers (Co-op and Waitrose), as well as industry trade associations, government agencies and NGOs. The Review Panel included representatives from academia, formal standards committees, independent experts and consumer groups.

Investor sponsor group



Represented by



Collaboration Pensions for Purpose: Impact Investing Adopters Forum



In 2021, the Investor Forum was contacted by the Impact Investing Institute, the not-for-profit group that focuses on improving the effectiveness of the impact investing market in the UK and internationally. They spoke with us about the idea of collaborating with Pensions For Purpose on their newly launched Impact Investing Adopters Forum.

The Investor Forum became a Supporter of the Impact Investing Principles for pension funds, and agreed to promote and amplify the importance of the principles to our Members. In October we presented on Principle 3 “Use your voice to make change”, which emphasises how pension funds should approach the alignment of their impact objectives with their stewardship and engagement activities.

The case study focused on the work on plastic pellets and Members’ contribution to sponsoring the new PAS 510, which has an overarching goal to help companies achieve and maintain zero pellet loss.

This was an opportunity for the Forum to engage with other organisations focused on collaboration on material issues and to bring evidence of our work to a broader asset owner audience.

PROMOTING WELL-FUNCTIONING MARKETS

Principle 4 of the Stewardship Code introduced the requirement that signatories should 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.

We have initiated a number of projects which combine our practical focus, the team's extensive experience and the support of our Members, to identify and promote improved practice. We believe that a collaborative effort to address systemic issues can be very effective provided there is a clarity of objective for any given initiative.

In 2021, we focused on the following issues:

- **Governing for Growth** (page 40) – a framework to identify and articulate investor expectations to assist companies as they grow.
- **Voting turnout at Irish Companies** (page 41) - an investigation into the barriers to exercising shareholder rights at Irish companies following the change in the Central Securities Depository in March 2021.
- **Investor engagement in bid situations** – a programme of events to help ensure that Members are aware of the options available to them in bid situations so that they can use the available tools effectively.

The Forum continues to contribute to the political and regulatory debate through submissions to regulatory reviews and maintains an open dialogue with government departments, regulators and policy makers. The Forum also has regular conversations with other organisations, both UK-focused and international, with a view to propagating best practice.

In 2021 we responded to the Hill Review, the BEIS Consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, the BEIS Consultation on restoring trust in audit and corporate governance, and the Austin review of secondary capital raising.

Thinking aloud: The Future of the UK Stock market

As Lord Hill illustrated, there is much to consider if the UK is to become a more attractive market. While lower free floats and dual class share structures might persuade more entrepreneurs to list, they will not fundamentally make the UK market more attractive. Instead we need to create an environment which incentivises and encourages companies to list here.

In the last decade the UK has enjoyed enormous successes in Fintech (where a unique environment created the conditions for a number of start-ups to achieve 'unicorn' status), and in building a leading position in offshore wind. Yet there is no assured route to the UK public market for these Fintech companies and there will be an enormous opportunity for the public markets to fund the growth in renewable solutions.

The Climate Change Commission estimates that the UK must invest £1 trillion to achieve its net zero goal by 2050 – this represents a huge investment opportunity. We need to build a supportive ecosystem and to make the case for the new clean growth companies to list on UK public markets. Capital formation on this scale presents an opportunity to revitalise the UK stock market, just as the formation of joint stock companies to deliver canal, railroad and power generation solutions did in the 19th century.

S-360: GOVERNING FOR GROWTH

Many companies navigate their growth and development from small cap stocks to larger businesses smoothly. For others, this process of maturing is challenging. Management may be distracted from driving business success by problems that might have been avoided, had structures and governance been improved earlier. Investors can see a significant loss of value through such events, and often it takes time to recoup that value as the business only slowly finds a new, or renewed, rhythm.

In 2021, we attempted to distil into practical observations the experiences of investors gained

through many years observing companies navigating a challenging phase in their development, and published a white paper entitled "[Governing for Growth](#)".

The paper identified a series of indicators that highlight when a company is reaching a stage in its maturity where it becomes important to build resilience and when greater governance structures may be advisable to help avoid negative outcomes. The framework was developed based on a series of roundtable discussions and with the assistance of a panel of experienced practitioners.

Indicators of growing maturity

Scale:

- **Shareholder register:** Change in shareholder register as larger cap investors join small cap specialists and retail investors
- **Size:** Crossing of thresholds on number of employees, turnover or balance sheet
- **Market cap:** Market capitalisation increases beyond a threshold of £1bn

Operational:

- **Management style:** Management based on personal relationships has shifted to one based on processes
- **Line of sight:** Central management team no longer has clear line of sight to all operations
- **Business complexity:** Range of business challenges expands (e.g. entering new geographies or business segments, internalising formerly outsourced functions, facing fresh legal/regulatory questions)

External Perspectives:

- **Shareholder:** Change in the nature of the expectations of institutional investors
- **Stakeholder:** Pressure from other stakeholder(s) builds
- **Adviser:** Nomad or broker recommends change

Responses to enhance governance

Position:

- **Shareholder:** Regularly seek an understanding of expectations of leading institutional shareholders
- **Board evaluation:** Deliver formal board evaluation process, and respond appropriately

People:

- **Executive:** Appoint executive director with larger UK public company experience
- **Company Secretary:** Appoint company secretary (with UK public company experience)
- **Senior Independent Director:** Appoint a SID with larger UK public company experience
- **Experience:** Encourage executive team to seek NED roles on other boards, or coaching
- **Chair:** Appoint an independent chair

Processes:

- **External audit:** Put audit out to tender
- **Related Party Transactions:** constrain activity and offer independent shareholder vote
- **Internal audit:** Develop internal audit function
- **Pay schemes:** Seek approval for new remuneration schemes
- **Annual pay vote:** Offer annual vote on remuneration
- **Listing:** Consider changing form of listing

S-360: VOTING TURNOUT AT IRISH COMPANIES

Stewardship encompasses much more than voting, but the voting of shares is an important mechanism for shareholders to express their views and exercise their shareholder rights. Following the 2021 AGM season, shareholders became concerned that the efficacy of the voting process had been negatively impacted by changes in the Irish market. This is a particular issue at a time when scrutiny of voting records from both clients and wider society is high.

Context

As a result of the United Kingdom’s decision to leave the European Union, the CREST system was no longer authorised to act as a central securities depository (“CSD”) for Irish uncertificated securities with effect from 12th March 2021.

Euroclear Bank was selected to provide a replacement holding and settlement system for securities of Irish companies listed or quoted on Euronext Dublin and/or the London Stock Exchange. The Euroclear Bank model is an ‘intermediated’ or ‘indirect’ system, which is structurally different to CREST. Relevant securities are held by Euroclear’s nominee, who are the shareholder on the register. Each relevant issuer was required to pass certain resolutions at its AGM or at an EGM consenting to the migration.

The issue

Subsequent to the migration to Euroclear Bank, investors observed:

- an increased level of disintermediation in the voting chain;

- shorter time frames for decision-making;
- an increase in shareblocking; and
- significantly lower levels of voter turnout at the 2021 AGMs of Irish companies.

Investors were concerned that the unintended consequence of the change of CSD was an erosion of their rights as beneficial holders in the equity of Irish listed entities. The benefits that the Shareholder Rights Directives intended to convey to institutional investors – including timely conveyance of information, confirmation of vote, increased transparency, and a prohibition of share blocking – have been negatively impacted by the systems changes.

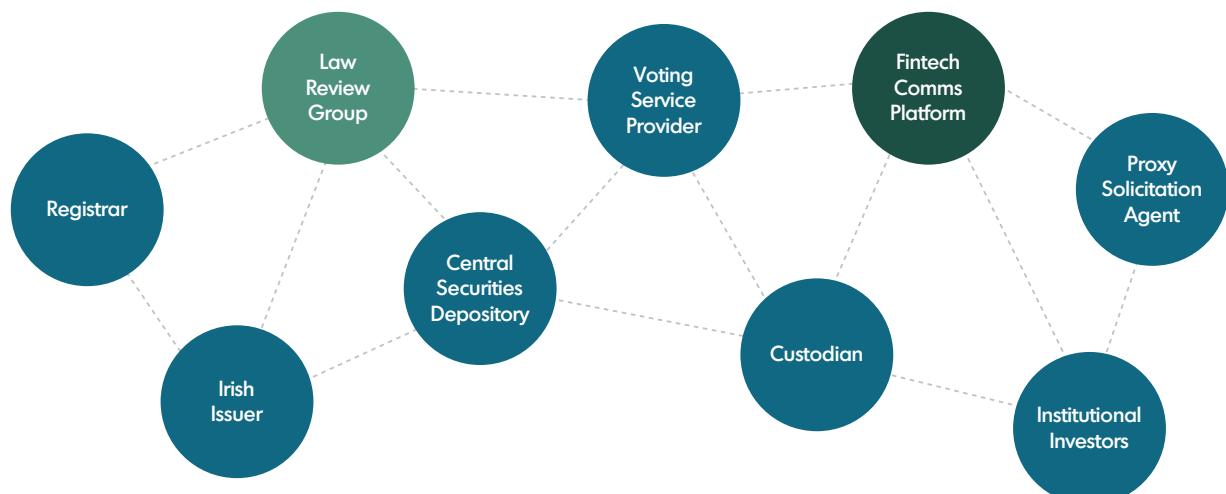
Working Group focus

Nine investors came together to form an Investor Forum-convened Working Group, to share data and experience, collectively investigate the issue and make the case for change. The Group sought to identify the key contributory factors through meetings with participants representing every part of the voting chain.

The objective of the project was to remove the barriers to investors being able to exercise effective stewardship.

We pieced together the various insights and perspectives and will incorporate the feedback and learnings into a paper to engage with the relevant bodies over the coming months to attempt to rectify issues in advance of the 2022 voting season.

Investigate: Meeting with market participants



S-360: INVESTOR ENGAGEMENT WITH BIDS

With the significant increase in the number of ‘take private’ transactions in the UK in 2021, we launched a project “Investment Engagement with Bids” in November to help Members understand the options available to them. We wrote a short paper “Investor Engagement with Bids: A primer,” held a webinar with Hogan Lovells, and hosted a roundtable with senior investors and the Takeover Panel leadership.

Risks and how to manage them

Our primer reminded investors of the key features of the UK takeover regime and highlighted trends in recent bid situations. The webinar outlined options available to investors under the Code, key risks which can arise and protective measures to manage risks. “Best practice” suggestions included private “soft” consultation and, in some instances, collective engagement. In considering if, and when, to engage with other investors “red lines” were highlighted, particularly in relation to inside information.

Key issues and recent trends

The roundtable discussed issues which affect shareholder engagement in bid situations and the implications of recent trends:

1. **Investor Engagement** – Investors face a range of regulatory constraints in working together and in their interactions with companies in bid situations. The Takeover Panel reminded investors that protecting shareholder interests is at the heart of the Code, as is defending the integrity of financial markets. Ordinary stewardship and fiduciary activities do not generally raise acting in concert issues under the Code, and if in doubt investors are actively encouraged to consult with the Panel. Members raised practical questions regarding working together and signalling voting intentions, as well as constraints under the Market Abuse Regime (MAR), where it was felt clarification is needed.
2. **Investor Public Statements** – We have seen an increasing number of investors speaking publicly about their intentions to vote in bid situations. The Panel explained that their approach is guided by the high standards of care and accuracy which are expected in bid situations so that sufficient information is available for all shareholders to reach an informed decision and that relevant information is not withheld. The signing of irrevocables and letters of intent are covered by the Code rules, but some aspects such as

statements of support are not covered explicitly. In making statements, persons connected with bid situations, including investors, are expected to behave in a professional manner. Investors discussed the constraints they felt existed in talking to other shareholders and in making statements. The key risks are MAR-related but the risk of voting intentions being misconstrued in public statements was also discussed.

3. **Directors’ Obligations** – The Vectura takeover in 2021 highlighted the issue of whether the Code allows directors to take into account wider stakeholder interests when assessing bids, as required under the Companies Act and is becoming increasingly important to investors’ clients. Nothing in the Code interferes with directors’ duties under the Companies Act to limit the factors they can consider in assessing bids.
4. **Conflicts of Interest** - The large number of “take private” bids in 2021 raises the question as to whether the Code provided adequate protection for investors surrounding the management of conflicts. Clear disclosure requirements are the key protection for investors.

Conclusions and next steps

Investors have a number of tools they can use to manage bid situations but face a range of practical constraints due to actual and perceived regulatory considerations.

Based on the insights generated and feedback gained in the first stage of the project, in 2022 we will evaluate whether there are targeted scenarios which might require further investigation. We will consider, as part of a regular review of the Collective Engagement Framework, whether it might be useful to clarify how collective engagement via the Forum can be used by Members in bid situations.

COLLABORATION: STAKEHOLDER CAPITALISM

In collaboration with:



Centre for
Corporate
Governance

During 2021, the Investor Forum and the London Business School (LBS) Centre for Corporate Governance collaborated with Members to work on an in-depth review of Stakeholder Capitalism.

Why is there a heightened call for more stakeholder-driven capitalism?

Since the global financial crisis, debate has focused on whether companies are too big to fail and, through the abuse of dominant market positions, have exacerbated inequality in society. There are numerous examples where companies were neither fully held to account nor fully recognised the harm that stemmed from their behaviour.

The Covid-19 pandemic has served to sharpen the focus of a wide range of stakeholders on the role that shareholders play in providing access to capital for publicly listed companies and in holding such companies to account when behaviour falls below expectations or if capital is allocated poorly.

There is a growing body of opinion that the current model of capitalism has failed because of an excessive focus on shareholder interests, without sufficient regard to other stakeholders. Thus, it is no surprise that the debate around the merits of shareholder primacy compared to alternative forms of stakeholder capitalism has grown stronger.

It is important not to underestimate the urgency of the situation, given the rapidly evolving attitudes and expectations towards issues of justice and equality brought about by social change. How investors and companies respond to the environmental crisis and the role they play in tackling climate change and biodiversity represents the biggest discontinuity of recent times.

Objectives

A key aim of this project was to bring together academic evidence and the practical experience of investors to develop a clearer, shared understanding of what is meant by shareholder and stakeholder capitalism to inform a common understanding. Much of the debate has until now postulated an alignment between shareholders and short-termism as the prime culprits in the perceived failures of the current capitalist system.

In seeking to understand what investors can do to address the erosion in trust in shareholder value we:

- Reviewed academic literature and held discussions with leading investors in order to:
 - Inform a shared understanding;
 - Explore the strengths and weaknesses of shareholder and stakeholder models; and
 - Develop a clear understanding of the role of investors versus other stakeholders, including Government.
- Proposed an evolved framework for shareholder value focused on delivering sustainable value to society.
- Identified a series of principles and practical actions that can guide investor decision making and stewardship activity.

A White Paper, to be published at the end of January 2022, will explore what investors can do to address the shortfall in trust among wider stakeholders and consider how the model of shareholder value can be more effective.

