THE INVESTOR FORUM

Executive Summary

Investor Forum

We are a non-profit community interest company set up by institutional investors in UK equities. With support from more than 50 institutions, we prioritise long-term sustainable value creation as the ultimate purpose of stewardship and the one goal that can unite the investment chain.

Sitting in the heart of UK equity markets, we leverage our expertise and networks to tackle challenges, convene dialogues, and deliver solution-focused engagement outcomes through our collective engagement framework. We seek to bridge gaps that arise between companies and investors to align interests, build trust and focus on creating and maintaining long-term value for all stakeholders.

In rapidly evolving markets, we facilitate dialogue by identifying investor concerns and presenting those perspectives to boards in a comprehensive and consistent manner. We seek to ensure better informed boards and to enhance trust and understanding between issuers and investors.

Acknowledgements:

We would like to thank all the participants from UK listed companies and investor organisations for their valuable contributions. We also extend our thanks to our Advisory Panel, composed of experts from our membership, and to our strategic partners from The Investor Relations Society (IRS), Accounting for Sustainability (A4S), The Audit Committee Chairs Independent Forum (ACCIF) and the representatives from the GC100 executive committee. We appreciate the time and commitment invested by each individual and organisation in advancing our shared objectives.

Promoting Best Practice Dialogue

INTRODUCING THE INITIATIVE

This paper presents the findings from our programme to identify and promote Best Practice Dialogue between corporates and investors. Our goal was to create a comprehensive assessment of the state of key dialogues between UK companies and investors.

In conjunction with strategic partners, we organised individual conversations and hosted workshops over a six month period with experts from 28 UK listed companies and 25 investors. We assessed the health of the relationship and identified a series of practical steps which might enrich key elements of the dialogue between companies and investors.

The foundations of the relationships between companies and investors are robust and can serve as a platform for enhancing the quality of dialogue between Boards and investors. This is of vital importance if we are to address the many challenges ahead and revitalise UK equity markets.

We believe that by addressing the concerns and opportunities which emerged during this project, companies and investors can reduce friction and strengthen relationships enabling them to focus their efforts on the issue of long-term value creation.

We view this report as just the beginning, not the end, capturing a specific point in time. Given the rapid pace of change, we envision it as laying the foundation to build and enhance relationships.

The project has been led by Sallie Pilot working with partners from The Investor Relations Society (IRS), Accounting for Sustainability (A4S), The Audit Committee Chairs Independent Forum (ACCIF), leading Company Secretaries and the Investor Forum's Senior Advisers. We are enormously thankful that so many experts have engaged in this vital debate.

We are encouraged to find so many passionate and dedicated professionals in both companies and investors who are committed to the success of the UK's publicly listed companies. We hope that you will take away practical insights to inform your individual interactions, whether as investors, companies or broader stakeholders.

Finally, we hope that you will be inspired to contribute to rejuvenating the dialogue with UK companies for the benefit of all. If you are, then please do join one of our ongoing programmes, or reach out to us to discuss new opportunities.

The Investor Forum
March 2024

Contents

Taking a Focused Approach

PRIORITISING INVESTMENT MANAGER AND COMPANY EXCHANGES

The investment chain is complex, linking together asset owners, with asset managers, companies (in the case of equities) and stakeholders in the broader market ecosystem.

This project focuses on the critical exchange between investment managers and companies, and specifically on a number of key dialogues that characterise the relationship:

- Investor Relations
- Sustainability
- Audit & Assurance
- Voting & Governance

Throughout the project, we uncovered several surprising misperceptions. Consequently, the report aims to debunk these 'myths' and, by sharing a series of insights from participants on what works well, we seek to establish a basis for enriched dialogue and focused engagement.

Each of these dialogues is very different in terms of both maturity – ranging from well-established in the case of Investor Relations and Voting & Governance to nascent in the case of Sustainability and Audit & Assurance – and intensity, with Audit & Assurance being the least active dialogue by far.

Irrespective of maturity or intensity, in each dialogue we observed a commitment to honesty and openness and a rich appetite from participants to better understand the differing perspectives and to find efficient and effective ways to enhance communication.

A number of key observations emerged from our discussions, which we believe are critical to ensuring an effective understanding between companies and investors. If both parties grasp the opportunities presented, they can ensure that strong foundations are in place for a resilient partnership. Such alignment, will support more informed decision-making to the benefit of both companies and investors.

The findings are not static, but a starting point and a foundation to build on. The market dynamics are rapidly evolving, requiring continuous re-evaluation and adaptation of relationships and dialogues to ensure their effectiveness and efficiency in the future.

Recognising Some Uncomfortable Truths

CHANGING MARKET DYNAMICS

Companies and Investors Are Becoming Overwhelmed

The roles and responsibilities of companies and investors in society are undergoing a significant shift as governments increasingly require them to address complex societal and environmental issues. The result is an overwhelming proliferation of initiatives, requirements and challenges, relating to an expanding array of issues with a growing number of influencers exerting pressure. The changing nature of ownership in the UK market is a further complicating factor.

The current system was not designed to cope with such multifaceted demands. It is critically important that companies and investors work together to navigate this complexity.

Navigating a Tipping Point

We identified three major challenges which are stretching, and in some cases challenging, relationships between companies and investors:

Reporting is crowding out critical dialogue:

- The focus on reporting is distracting market participants, both companies and investors. Action is needed to create decision-useful information to inform dialogue rather than a compliance-driven approach to increasing disclosure. Dialogue builds relationships that data alone cannot – information is necessary but not sufficient to build trust.
- The quality of interaction is key not the quantity of activity.

Systems are being created that only the biggest can afford:

- Increasing demand for comprehensive information exchange and reporting requirements – whether voluntary or regulatory in nature - are an enormous challenge for everyone.
- We must recognise that only the largest companies and asset managers will have the resources to meet the disclosure challenges ahead.

Voting Against is not a sign of effective stewardship:

- Voting practice is changing. The landscape is evolving dramatically in terms of both shareholder composition, scrutiny, and priorities.
- Addressing misconceptions and conflicts – from the role of proxy agents to ESG impact – is an urgent priority.

Language Matters in Company and Investor Dialogue

Across all these dialogues, a standout observation is that language matters when we talk about ESG and sustainability. Furthermore, we have identified several best practices reflecting what investors and companies perceive to work effectively and constitutes what excellent dialogue and interaction looks like.

In addition to the overarching insights derived from our exploration of the individual dialogues, specific findings have emerged within each dialogue. These findings, we believe, if addressed, hold the potential to enhance and enrich the ongoing dialogue significantly.

Highlighting Key Insights

COMPANY-INVESTOR DIALOGUES

1. Clearing the Path for Strategic Conversations

Companies and Investors have strong relationships, but these relationships need to evolve to address the increasing complexity. As the dynamics evolve there is a need to bolster and expand the core relationships across both companies and investment institutions to pave the way for positive, multi-faceted conversations that focus on value creation. *For more: Unifying Element is Value Creation (Page 7)*

2. Co-Creating an Effective Model for Stewardship

To navigate the evolving investment landscape and address, the at times, overwhelming plethora of initiatives, it is imperative that Asset Owners, Asset Managers, Companies and Regulators collaborate beyond their respective stakeholder group. By co-creating a model of stewardship and engagement, stakeholders can contribute to a more vibrant UK market. *For more: Navigating Change in an Evolving Landscape (Page 9)*

3. Establishing a Common Understanding

The cornerstone of resilient partnerships between investors and companies is effective dialogue that establishes a common understanding. Listening attentively is paramount to achieving this understanding – it enables us to transcend individual interests and lay the groundwork for valuable interactions. *For more: Listening serves as the Cornerstone of Relationships (Page 10)*

4. Busting Myths About the Investor-Company Relationship

There are a surprising number of unresolved misperceptions and misunderstandings that need debunking – from the role of proxy agents and voting decision-making to the debate on remuneration and the impact of ESG. These misunderstandings are eroding confidence and undermining relationships. *For more: Paving the Way for Meaningful Dialogue (Page 13)*

5. Focusing on Meaningful and Relevant Dialogue

The evolving dynamics of relationships and interactions across various stakeholder groups reveal a spectrum of maturity and intensity. Some are well-established and intense, while others are nascent and less frequent. It is critical to prioritise meaningful and relevant dialogues which drive progress and understanding, irrespective of their maturity level or frequency. *For more: Examining the Maturity and Intensity of Each Dialogue (Page 18)*

Seeking a New Equilibrium

PRACTICAL ACTIONS FOR MARKET PRACTITIONERS

The Investor Forum is committed to driving forward actions from this initiative in the coming months. This report marks the beginning of a journey – a journey aimed at building stronger relationships between companies and investors that endure and evolve over time.

Our intent extends far beyond these pages. We aspire to cultivate an environment where collaboration thrives and where the exchange of ideas and initiatives can create practical outcomes.

We believe that bringing together market practitioners – companies and investors is of paramount importance. It is through the collaboration and the concerted efforts of all parties that we can most effectively address the multifaceted challenges that we face.

We will share the insights in this paper with participants and influencers across the ecosystem and develop partnerships and seek to create practical actions to address the issues identified.

By coming together, we not only seek to overcome obstacles but also to lay the groundwork for restoring trust within our markets. The alignment of interests, transparency, and accountability addressed in these collaborations can contribute to rebuilding and sustaining trust – a cornerstone of a robust and resilient market.

The path ahead may be challenging, but the potential benefits – both tangible and intangible – can help to revitalise the UK's equity market. Together, we can contribute to rejuvenating the dialogue with UK companies for the benefit of all, navigating a path to generate sustainable long-term value.

Investor Forum Priorities

- **Creating an Investor and Issuer Forum:** We will create an Investor and Issuer Forum, to address the key points of friction that inhibit a more effective marketplace and to foster collaborative dialogue between companies and the investment community.
- **Facilitating Collaborative Engagement:** We will continue to promote clearer communication and efficient information exchange between companies and investors.
- **Addressing Material Issues:** Proactively tackling broader material issues impacting both companies and investors, the Forum will seek to convene investors to collectively address challenges like voting, sustainability reporting, working practices, and climate change.
- **Enhancing Education Initiatives:** We will continue to enhance investor understanding regarding best practices, and provide the opportunity for education on emerging issues in collaboration with strategic partners and other stakeholders.
- **Advancing strategic dialogue:** We will work with Members, our strategic partners, and other interested parties to identify a series of practical actions to enhance each of the specific dialogues, strengthen the relationships between companies and investors, and to encourage a focus on sustainable value creation.

Clearing the Path for Strategic Conversation

PRIORITISING THROUGH A COMMON FOCUS ON VALUE CREATION

Our belief is that dialogue is critical to building trust. Trust forms the bedrock of any successful investor-company relationship, underpinning the confidence that investors place in a company's ability to deliver sustained value. From the investor's perspective, trust is multifaceted, built up from a range of conversations, disclosures and questions that must be answered to establish a solid foundation of understanding and awareness.

To build a bridge between investors and companies, we concentrated on four pivotal stakeholder dialogues, assessed the overall health of those relationships, the quality of engagement, and the effectiveness of information exchange.

We believe that by addressing the identified concerns and achieving clarity, companies and investors can reduce friction, enabling boards and CEOs to focus both their efforts and their interactions with shareholders on the issue of long-term value creation.

	Exchanging Information	Understanding Impact	Ensuring Accountability	Building Confidence in Assurance
	Investor Relations Dialogue	**Sustainability Dialogue**	**Voting & Governance Dialogue**	**Audit & Assurance Dialogue**
Companies	Investor Relations Professionals	Sustainability Professionals or those with responsibility	Company Secretariat	Audit Committee Chairs
Investors	Analysts Stewardship Teams	ESG Teams	Governance Specialists	Portfolio Managers Governance Specialists
	Go To Dialogue >	Go To Dialogue >	Go To Dialogue >	Go To Dialogue >

Clearing the Path for Strategic Conversation

PRIORITISING THROUGH A COMMON FOCUS ON VALUE CREATION

	Exchanging Information	Understanding Impact	Ensuring Accountability	Building Confidence in Assurance
	Investor Relations Dialogue	**Sustainability Dialogue**	**Voting & Governance Dialogue**	**Audit & Assurance Dialogue**
Question We Set Out To Address	How can we create a seamless information ecosystem that caters to the needs of both investors and corporates, promoting transparency, trust and informed decision making?	How can we better measure, communicate and align the impact of investments with corporates' strategy efforts, benefitting both investors and corporates in pursuing sustainable goals?	How can we refine the framework to ensure timely, accurate and transparent corporate information, fostering investor and corporate confidence?	How can we establish a robust framework that instils confidence in the reliability and accuracy of corporate information, benefiting both investors and companies alike?
What We Discovered	**Expertise** is vital in this dialogue. There needs to be a high level of skill in identifying and communicating key strategic elements to build investor trust and encourage long term commitment combined with a detailed knowledge of a heterogeneous investor universe, and effective strategies to engage with and build long-term relationships with a wide range of investors.	**Complexity** is a key theme of this dialogue. Rapidly changing regulations, diverse stakeholder expectations, and emerging technical issues combine to create a complex environment in which to analyse and communicate the impact of corporate sustainability efforts and ensure alignment with stakeholder expectations. There are a wide variety of views, which means a nuanced approach is needed to enhance mutual understanding and support improved decision-making, in order to enable both investors and corporates to deliver sustainable outcomes.	**Consistency** emerges as a crucial theme in this dialogue. Both investors and companies seek to establish consistency in the voting process, emphasising the need for more uniformity in interpretation, execution and feedback. The dialogue also considered the sources of friction and a range of frustrations with the current system.	**Integrity** emerged as the linchpin of this dialogue, underscoring its fundamental role in the audit and assurance processes. The discussion centred on how to ensure confidence in the reliability of corporate information through a better understanding of assurance and transparent high-quality dialogues to develop enduring trust for the benefit of investors and corporates.

Navigating Change in an Evolving Landscape

CO-CREATING A MORE EFFECTIVE MODEL FOR STEWARDSHIP

In the evolving investment landscape, one thing is clear: the environment has become much more complex. Companies, asset managers and asset owners all face enormous pressures as they strive to reshape business models to deliver sustainable returns.

Amidst this complexity, the UK equity market has many positive characteristics, including:

- Some of the best access to companies and most transparent information flows of any market;
- A series of investor protections that have proved their worth over decades.

That said, recent years have seen an overemphasis on evidencing how investors hold companies accountable and on codification over action. While much of this agenda has been shaped in response to corporate failures, risk has not been eliminated. Instead, relations between investors and companies have been strained, to the detriment of UK listed markets.

Markets work best when there is a clear alignment of interests between savers, asset owners, asset managers and companies. In the UK, this chain has been fragmenting for 20 years.

Dedicated resources devoted to UK equities have reduced significantly, reflecting the decline in importance of the asset class. Experienced portfolio managers, who have the respect of boardrooms, have stepped down from managing money, and UK teams are being integrated into broader European and Global equity teams.

In the midst of the plethora of initiatives introduced over recent years, there lies opportunity for streamlining and synergy. **Asset Owners, Asset Managers, Companies and Regulators all possess the potential to step outside of their own stakeholder group to co-create a more effective model of stewardship and engagement.**

With the growing tensions between Asset Owners and Asset Managers and between Companies and Asset Managers, it is vital that all participants are motivated to re-align the investment chain around the common goal of creating long-term sustainable value. What's critical now is a clear recognition and mutual understanding of the roles, responsibilities and priorities of all agents in the chain.

The efforts to reform the market, to ensure that it is 'match fit', are beginning to take shape, and the proposed package of reforms is wide ranging. Now is the time to move forward with conviction to establish the conditions that will underpin a vibrant listed equity market.

Developments in the Landscape:

- Decline of UK equities as an asset class.
- Remuneration is a point of contention.
- Broadening of the stewardship agenda.
- Focus on codification over action. This has impacted market relationships the most – for companies and investors alike. The complex raft of overlapping rules and requirements requires urgent simplification.
- Changing political and economic environment. Government policy has shifted significantly to focus on the competitiveness of UK markets.

Establishing a Common Understanding

LISTENING IS THE CORNERSTONE OF RELATIONSHIPS

From our discussions, there are several critical observations that we believe serve as the cornerstone for effective dialogue and the establishment of a resilient partnership between investors and companies. To address the rapidly changing landscape, we believe that it is critical to recognise and internalise these observations as they transcend individual interests, and lay the groundwork for interactions geared towards achieving the overarching objective of long-term value creation. Embracing these observations is paramount for nurturing strong relationships, enabling informed decision-making, and unlocking opportunities to enrich the investor-company dialogue within the intricate ecosystem in which it operates.

Characteristics of the Relationship

1. The investor-company relationship is built on robust foundations

Despite the noise and occasional friction in the market, investors and companies share fundamentally strong relationships built on a foundation of robust connections and a common imperative – value creation. This shared goal is the unifying force across the investment chain.

2. No two investors or companies are the same

Every company and investor is different, shaped by their purpose, values, and approach. Companies vary in their cultures, strategies, and products or services offered, reflecting the diverse landscape of industries and geographies they operate in. Likewise, investors encompass a wide spectrum of individuals and entities, from asset owners to asset managers, with diverse objectives, approaches, risk appetites, time horizons and investment philosophies. It is crucial for both companies and investors to tailor interactions to enable efficient communication.

3. Strong relationships underpin quality dialogue

Dialogue surpasses mere disclosure requests and the exchange of factual information, offering insights that disclosure alone cannot provide. Relationships are pivotal in all dialogues. Investors value timely conversations and having pre-existing relationships which help to facilitate quick access when needed. On the corporate side, identifying the right contact within the investor institution to talk about the right issue is crucial.

4. Language matters when talking about ESG and sustainability

There is confusion and inconsistency in discussions about ESG and sustainability due to the frequent interchangeability of terms and/or the use of disparate definitions. ESG, being multifaceted and inherently subjective, leads to a spectrum of interpretations. Although recognised universally as an assessment framework the emphasis and scope of ESG considerations vary widely among individuals, organisations, and industries. Consequently, everyone's understanding of ESG is slightly different. This highlights the importance of clearly defining language to ensure meaningful dialogue and actions.

Changes Impacting the Landscape

5. Clearer reporting is part of the journey, not the final destination

Companies are inundated with reporting requirements. Prioritising what truly matters for a company's business is essential – the solution is not in the quantity but in the materiality of information. Likewise, investors are grappling with escalating reporting demands, feeling the effect from asset owners, regulatory pressures, and fund labelling requirements. A collaborative approach to enable an informed exchange of information can deliver significant benefits.

Establishing a Common Understanding

LISTENING IS THE CORNERSTONE OF RELATIONSHIPS

6. Meeting stakeholder needs presents inherent challenges

Companies have to navigate multiple stakeholders needs, including investors, employees, customers, and communities. The reality is that stakeholders often have diverse and sometimes conflicting interests and priorities; it is challenging to meet all expectations simultaneously. Effective stakeholder management involves prioritising concerns, making trade-offs, and transparently communicating decisions and their rationale. Strong relationships with investors are therefore critical to ensure a transparent and timely exchange of information.

7. Technology and sustainability evolve at an accelerated pace

There is a dramatically accelerating pace in the development and adoption of technological change – from big data to machine learning and artificial intelligence. While many believe that investors 'know all', in reality they can struggle to keep up. Investors have a wide variety of resources; not all have the bandwidth for in-depth detailed analysis. Companies shouldn't assume that investors have innate knowledge, and should remind them of business, strategy, and key issues at each interaction. As emerging issues, like biodiversity and nature, gain prominence, a mutual benefit arises from sharing knowledge and expertise.

Actions That Can Make a Difference

8. Incremental changes can wield substantial impact

Numerous small refinements can in aggregate combine to create significant improvements. If open to continuous improvement, investors and corporates can implement small changes that deliver easy wins on both sides, reducing friction, improving understanding, and breaking down barriers.

9. Best practice is rapidly adopted in a competitive market

Striving for best practice helps companies to enhance efficiency, quality, risk management and innovation, and build a competitive edge. Each investment organisation will have a unique culture and individual processes. Nevertheless, best practice initiatives can spread quickly through the marketplace and offer the potential to ensure efficient, effective, and high-quality relationships.

10. Understanding the purpose of the dialogue

To ensure effective dialogue, it is important to consider the reasons why investors talk to companies. When an investment decision is being made, active investors undertake extensive due diligence before investing / or divesting from a company. Once invested, dialogue can have many different objectives, can involve different people from the company and the investment organisation and can take several forms.

Reasons Why Investors Engage

Information Gathering:

- Investors seek facts and information to inform their assessment of the company and / or the broader industry or wider market.

Strategic Dialogue:

- Investors seek to understand how effectively company is executing against its stated strategy and investor expectations.
- These dialogues can include specific asks for the company to consider to align expectations, enhance performance or realise value.

Challenging Discussions:

- Investors raise concerns to assess whether a company is managing risks and addressing challenges effectively.
- If these discussions are not satisfactory, investors can escalate and active investors can decide to sell shares.

Thematic Engagement:

- Investors undertake targeted discussions and assessments related to their specific thematic priorities.
- The discussions may consider emerging systemic risks and opportunities, which the company may view as externalities.

Establishing a Common Understanding

BUSTING MYTHS ABOUT THE INVESTOR-COMPANY RELATIONSHIP

Paving the Way for Meaningful Dialogue

In addition to the critical observations guiding investor-company relationships and dialogue, we identified several myths that required debunking – unexpected misperceptions revealed during the individual dialogues on Investor Relations, Sustainability, Voting & Governance and Audit & Assurance. These myths are highlighted to set the stage for each dialogue. Through deliberate and thoughtful discussions between investors and corporates, we formulated a series of practical recommendations, paving the way for more meaningful dialogue and focused engagement in the future.

Investor Relations Myths

ESTABLISHING A COMMON UNDERSTANDING

Myth: All Engagement Is Good Engagement

Reality: No, strategic engagement is good engagement. Understanding the purpose behind engagement is vital – whether aimed at information gathering or transformative change. Clear objectives, well-defined agendas, and robust feedback mechanisms are essential components for impactful dialogue. Recognising that not all engagement is equal underscores the necessity for intentionality and strategic alignment in every interaction between investors and companies.

Myth: Consistently Applying the Same Approach Guarantees Success

Reality: This is misleading. Dynamic markets, different investment approaches, evolving investor expectations, and increasing stakeholder demands necessitate a shift toward redefined relationships. Rather than adhering to conventional practices, success hinges on establishing agreed-upon expectations before delving into specifics.

Myth: All Companies and Investors Are the Same

Reality: No two companies or two investors are the same. Companies vary in size, structure, industry, geography, strategy, governance and financial health, while investors have diverse objectives, approaches, risk tolerances, time horizons and investment preferences. Recognising and understanding these differences is crucial for effective communication and collaboration, ensuring tailored approaches that acknowledge the unique characteristics of each company and investor.

Sustainability Myths

ESTABLISHING A COMMON UNDERSTANDING

Myth: ESG Considerations Are Only Relevant for Certain Industries and Sectors

Reality: Environmental, social and governance factors are integral to all businesses but manifest in different ways and at differing levels of materiality. With the UK's commitment to a net-zero target, companies and investors alike must evidence their plans, activities, and actions towards sustainability. There are broader shifts in societal expectations and increased regulatory efforts that need to be addressed.

Myth: ESG Is Exclusively a Risk Management Tool for Investors

Reality: ESG entails more than just risk mitigation. It spans both risks and opportunities. While effectively managing environmental, social, and governance risks is pivotal, embracing ESG also unveils opportunities for innovation, market differentiation, and sustainable growth. Recognising the dual nature of ESG, as a risk management tool and a source of opportunities, positions investors to make well-informed decisions that align with holistic success, resilience, and long-term value creation and it is incumbent on companies to communicate in this light.

Myth: More Data Is the Answer

Reality: While sustainability data is undeniably crucial for gaining insights into a company's practices and track record, it is essential to understand that collecting data alone is not the solution to drive change. The true impact of sustainability efforts will be in capital allocation decisions that drive strategic investments and decisive actions. Investors play a pivotal role in providing the support needed to drive tangible and sustainable outcomes. Both companies and investors need to move beyond a sole emphasis on data reporting and collection and prioritise a longer-term perspective, recognising that strategic investments are crucial for achieving meaningful transition.

Governance & Voting Myths

ESTABLISHING A COMMON UNDERSTANDING

Myth: Investors Blindly Follow Proxy Advisors' Advice

Reality: This is a misconception, the reality is much more complex. While proxy advisors wield substantial influence, particularly for asset managers with limited resources, it's important to note that not all investors unquestioningly follow their advice. Almost all asset managers have bespoke, publicly available, voting policies which provide guidelines for proxy agencies to follow when executing voting instructions. Asset Managers review voting outcomes and investigate any discrepancies from stated policies. Proxy advisors serve a valuable role in providing information, especially for investors facing time constraints and resource limitations. There are questions about the quality, accuracy and timeliness of proxy research and recommendations. However many asset managers, the reality involves a discerning approach that integrates insights from proxy advisors with considerations of the needs, preferences, goals, and strategies of the asset owners they represent.

Myth: Voting Against Is a Sign of Good Stewardship

Reality: No, this oversimplifies stewardship. Voting, being a binary measure, is just one facet. True stewardship goes beyond, emphasising active engagement, thoughtful dialogue, and collaboration focused on preserving and enhancing the value of entrusted assets. The intense focus on 'holding to account' often crowds out constructive dialogue that aligns interests. Effective stewardship involves a multifaceted approach that considers the broader spectrum of actions aimed at ensuring the sustainable growth and success of the invested assets.

Governance & Voting Myths

ESTABLISHING A COMMON UNDERSTANDING

Myth: UK Investors Reject High Executive Pay

Reality: UK investors are not averse to recognising and rewarding excellence. Their apprehension, centres around compensating mediocrity. While acknowledging this, there is growing sentiment that the current approach to executive pay is overly complex. Investors wholeheartedly support executive pay structures linked to long-term performance and strategic alignment. The nuanced perspective of UK investors underscores the importance of linking remuneration to genuine merit and sustained value creation.

Myth: Extensive Engagement Around Remuneration Is Imperative

Reality: Over-engagement can yield a poor return on investment, fostering a perpetual cycle of tinkering that diminishes the effectiveness of each engagement. Investors frequently struggle to convey clear messages, and companies may find it challenging to extract actionable insights. This underscores the importance of steering away from excessive consultation and, instead, prioritising targeted and impactful interactions. Quality over quantity is key in remuneration discussions, ensuring that engagements are purposeful, focused, and capable of delivering clear, meaningful outcomes for both investors and companies.

Audit & Assurance Myths

ESTABLISHING A COMMON UNDERSTANDING

Myth: Investors Are Indifferent to the Audit and Assurance Processes

Reality: Investors operate under the assumption and trust that audit and assurance processes are conducted with precision and in compliance with rigorous standards. While they may not require a regular dialogue on audit matters, they are interested in maintaining an open line of communication, and are prepared to engage when necessary.

Myth: Audit Committee Chairs Are Reluctant To Engage With Investors

Reality: No, many Audit Committee Chairs recognise the importance of investor engagement. While investors may not feel the need for regular engagement, ensuring they have access when necessary is crucial. To further strengthen this connection, companies should proactively communicate the availability of Audit Committee Chairs for discussions. Additionally, there's an opportunity for companies to play a more active role in educating investors about key matters. Audit Committee Chairs take their responsibilities seriously, understanding that dialogue and transparency are pivotal for building trust.

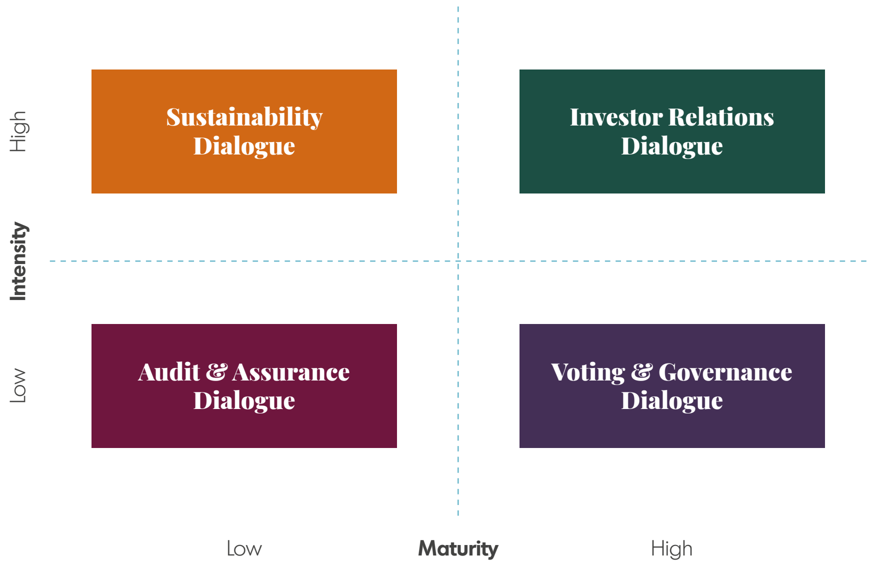
Focusing on Meaningful, Necessary, & Relevant Dialogue

EXAMINING THE MATURITY AND INTENSITY OF EACH DIALOGUE

This section provides a summary overview of the current landscape surrounding the four key dialogues critical to the relationship between companies and investors: Investor Relations, Governance and Voting, Audit and Assurance, and Sustainability. Through a clear examination, we delve into the state of play regarding each of the relationship's overall dynamics, assessing its maturity level and the intensity of engagement. By exploring these areas, we aim to highlight the evolving nature of interactions between companies and investors. It's also important to recognise that these relationships are not static; they are dynamic and require continuous adaptation and reassessment to effectively respond to market demands.

More detail is provided in each of the individual chapter reviews as well as insights into the intricacies shaping their collaborative endeavours and strategic decision-making processes.

Dialogue Characteristics



Focusing on Meaningful, Necessary, & Relevant Dialogue

EXAMINING THE MATURITY AND INTENSITY OF EACH DIALOGUE

	Investor Relations Dialogue	Sustainability Dialogue	Voting & Governance Dialogue	Audit & Assurance Dialogue
Overall Relationship	Well-established and well-formed process, marked by strong relationship development between corporates and investors.	Dialogue is rapidly evolving due to increasing significance. Driven by shifting regulations, diverse stakeholder expectations and emerging technical issues dialogue is being reshaped as sustainability gains recognition as a core driver of value creation.	Conversations have traditionally been clear and focused. However, the landscape is shifting due to emerging climate and ESG concerns, heightened pressure on asset managers from owners, the rise of pass-through voting, and the influence of proxy advisors. This has introduced complexity into the ecosystem.	Much less established than other stakeholder dialogues. With increasing focus from regulators and wider stakeholders there is a need for further development and understanding.
Maturity	**Matured:** Highly developed and mature relationship where there is a strong, transparent, and open communication channel between investors and companies. Both parties actively collaborate on strategic matters, and trust is well-established.	**Developing:** Evolving from an early stage, necessitating ongoing adaptation to emerging standards, regulations, and stakeholder expectations. Focus shifting to delivery and practical actions.	**Mature:** Core conversation about voting is clear, it is facing major disruptions due to market changes, emphasising the need for adaptability and proactive engagement.	**Nascent:** Limited engagement and communication between investors and companies, with a lack of established channels for information exchange.
Intensity	**Intense:** High-frequency and deep engagement with opportunities for better dialogue, collaboration, and exchange of insights and feedback.	**Moderate:** Exchanges and discussions between investors and companies occur at varying levels, frequency and depth.	**Frequent:** Regular and consistent dialogue around AGM season, with opportunities for improving efficiency and effectiveness of information exchange and meaningful discussions.	**Minimal:** Infrequent or sporadic interactions with limited dialogue or engagement although willingness from both parties to engage when relevant and necessary.

Exploring the Key Insights From Each Dialogue

WHAT WE DISCOVERED

These pages offer a synthesis of the overarching insights gleaned from our exploration of the four dialogues between investors and companies. Across each dialogue, participants demonstrated a strong desire to comprehend diverse perspectives and seek efficient ways to enhance these dialogues. For each of the dialogues, we identified an overarching theme which we believe encapsulates the essence of the relationship between investors and companies. Subsequently, our exploration uncovered several key findings for each dialogue which, if addressed, we believe hold the potential to enhance and enrich the ongoing dialogue.

Information Dialogue With Investor Relations Professionals

Expertise is vital in this dialogue necessitating a high level of skill in identifying and communicating key strategic elements to build investor trust and encourage long term commitment combined with a detailed knowledge of a heterogeneous investor universe, and effective strategies to engage with and build long-term relationships with a wide range of investors.

What We Discovered:

Strategic Engagement Reimagined: It is essential for companies and investors to differentiate between two very important needs:

- Engagements for information; and
- Engagements focused on value creation.

There is much to be done to establish the right people to speak to and the purpose of each engagement – whether addressing concerns or meeting reporting needs – to ensure efficient interaction.

Navigating Regulatory Complexities: Both corporates and investors are grappling with the immense challenge of keeping up with a myriad of regulatory and reporting requirements. There is a danger that compliance and reporting requirements frame conversations and crowd out dialogue centred on strategic issues.

Holistic integration of sustainability considerations into strategy: The evolving sustainability landscape demands a more synchronised approach from both corporates and investors. Joint effort is needed to navigate the upcoming reporting frameworks and initiatives and to ensure a focus on decision-useful information and value creation.

Impact Dialogue with Sustainability Professionals

Complexity is a key theme of this dialogue. Rapidly changing regulations, diverse stakeholder expectations, and emerging technical issues combine to create a complex environment in which to analyse and communicate the impact of corporate sustainability efforts and ensure alignment with stakeholder expectations. There are a wide variety of views, which means a nuanced approach is needed to enhance mutual understanding and support improved decision-making, in order to enable both investors and corporates to deliver sustainable outcomes.

What We Discovered:

The shift from Aspiration to Action: Both corporates and investors recognised the need for a practical and action-oriented approach to sustainability. The common

Exploring the Key Insights From Each Dialogue

WHAT WE DISCOVERED

thread is the urgency to move beyond philosophical discussions to translate ambitions into tangible actions and impactful outcomes, on top of the tsunami of regulation and legislation surrounding sustainability that is impacting corporates and investors alike.

The value of Investor influence: Investors were seen to possess a significant power to drive change, yet there may be an underestimation of their influence. Corporate representatives responsible for sustainability initiatives expressed a desire for investors to be more assertive in their expectations from senior management and boards with regards to their sustainability-related action and performance. Insightful questions posed by investors, especially to leadership figures such as Chairs, CEOs, and CFOs, serve not only to keep sustainability atop the agenda but also act as a litmus test, signalling the importance of sustainability to them.

Reporting taking centre stage: Reporting, especially in environmental, social, and governance (ESG) areas, is overtaking the agenda for companies and investors. This focus often overshadows discussions on real world impact as both entities grapple with rising regulations and stakeholder expectations.

Acknowledging Shared Vulnerability: Both corporates and investors shared a vulnerability in their pursuit of sustainability, distinguishing it from conventional decision-making. The inherent uncertainty in data quality, the rapid pace of change, capital investment required, and the extended time horizons make this pursuit challenging. These factors necessitate a different style of dialogue to enables a deeper understanding and connection between corporates and investors.

Accountability Dialogue on Governance and Voting with Company Secretariat

Consistency emerges as a crucial theme in this dialogue. Both investors and companies seek to establish consistency in the voting process, emphasising the need for more uniformity in interpretation, execution and feedback. The dialogue also considered the sources of friction and a range of frustrations with the current system.

What We Discovered:

Positive Dialogue: Investors generally expressed positive sentiments about the dialogue with corporates in the UK market. They recognised value in transparency and governance practices, distinguishing the UK from other markets. However, there was acknowledgment that improvements can be made to enhance the dialogue, as corporate experiences with investors were less positive. The increasing impact of the evolving relationship of asset managers with their clients – asset owners – would need to be considered.

Remuneration Simplification: Unsurprisingly, investors advocated for a simplification of remuneration packages, with a unanimous message underscoring the necessity for clarity in this domain. Their emphasis was not solely on the reduction of complexity but also on aligning compensation structures with performance metrics and strategy. There was a broad concern within the investment community about the efficacy and transparency of executive pay structures.

Strategic Engagement for Tangible Outcomes: It was agreed by all that efforts were needed to focus on the purpose of engagement, moving beyond engagement for its own sake. The emphasis should be on enhancing

Exploring the Key Insights From Each Dialogue

WHAT WE DISCOVERED

value and ensuring tangible outcomes. Increased effectiveness in engagement may involve a wider range of approaches by companies and perhaps even a reduction in the frequency of interactions, allowing a shift towards more profound discussions on topics such as social and environmental issues, where a deeper understanding from both parties will be essential to achieve meaningful results.

Perception Gap: For companies there is a perception that governance professionals and investment teams are not joined up. Investors are adamant there is clear coordination and almost all asset managers have publicly available voting policies, and decisions rarely deviate from this policy without some review by the investment team. While asset managers strive for consistency, there is scope for misunderstanding after early soundings, particularly on remuneration issues. This perception gap is undermining trust and needs closing.

Assurance Dialogue with Audit Committee Chairs

Integrity emerged as the linchpin of this dialogue, underscoring its fundamental role in the audit and assurance processes. The discussion centred on how to ensure confidence in the reliability of corporate information through a better understanding of assurance and transparent high-quality dialogues to develop enduring trust for the benefit of investors and corporates.

What We Discovered:

Educating Investors: As Annual reports are long and complex, the roundtable emphasised the value of proactively providing investors with deeper insights into the responsibilities undertaken by Audit Committees and their Chairs. A focused programme would enrich investors' existing knowledge and address key investor issues to foster a more nuanced and comprehensive understanding of these critical functions.

Building Investor Confidence: It was felt that success in illuminating the roles and functions of Audit Committees could set the stage for heightened investor confidence. If actions can be taken to build a shared and comprehensive understanding, investors will be better equipped to assess the value and reliability of audit and assurance processes, establishing a solid foundation for meaningful conversations when needed.

Promoting Quality Dialogues: The desired outcome is not just informed investors but the initiation of high-quality corporate/investor conversations, as wanted and needed. Audit Committee Chairs (ACCs) are open to being readily available to be held to account, but neither investors nor companies see value in simply adding yet one more round of meetings to already crowded agendas. The focus should be to ensure that dialogues are substantive, meaningful, necessary and relevant, not simply routine.

What Companies & Investors Think

WHAT WORKS WELL OVERALL

In this section of our report, we delve into what constitutes excellent dialogue and interactions between investors and corporates, capturing best practices shared by both parties. Companies and investors alike have contributed insights into what "works well" from their respective standpoints, offering invaluable perspectives on effective engagement. We outline overarching best practices applicable to any dialogue or engagement between investors and companies, as well as specific observations from three of the four key dialogues – governance and voting, assurance and audit and sustainability. Together, these insights provide a comprehensive set of best practices for both investors and companies to consider, to build productive and mutually beneficial interactions.

What Companies & Investors Think

WHAT DO COMPANIES DO WELL?

Overall

- Companies that prioritise clear communication and proactive engagement in favourable times build strong trust and confidence among investors, laying a robust foundation for enduring relationships.
- Streamlining reporting and communications to present a summary investment case, value drivers, and key differentiators in a clear and accessible manner at each interaction helps investors' understanding amidst the information overload.
- Investors appreciate when corporates assist in balancing short-term trading updates with the broader context of the business. Including strategy, business model insights, and historical data in quarterly presentations, often available in an appendix, enhances transparency and investor understanding.
- Companies that share their questions in advance of a meeting give investors the opportunity to reflect and discuss internally, leading to more productive and insightful discussions during engagements.
- When companies connect and synthesise their reporting and communications in a strategically driven manner, integrating the importance of sustainability issues with financial performance, it results in consistent and coherent messaging that is more easily accessible.
- When companies prioritise clarity and transparency regarding their material issues, and connect those issues to their overall strategy, rather than focus on compliance-driven reporting, it demonstrates a deep understanding and confidence in their operations.
- When companies clearly demonstrate that ESG matters are fully endorsed by the CEO and the board, it sends a strong signal to investors regarding integration into the company's strategy and operations. This integration and commitment to transparency is reinforced when linked to remuneration practices and when substantial changes in sustainability targets are treated with the same gravity as financial target adjustments.
- When companies provide access to sustainability specialists for investors, it facilitates deeper conversations that lead to a comprehensive understanding of broader business and strategic aspects. This collaborative approach helps to focus on the holistic integration of sustainability into the company's operations and strategy, enhancing understanding and trust and mutual learning between investors and companies.

Sustainability

- Companies that emphasise their sustainability angle in initial meetings, highlighting their company thesis, strategy, and business model. A CEO's strong emphasis on sustainability signals genuine commitment, serving as a green flag for investors.
- Maintaining consistency in data across all reports and communication so that investors

What Companies & Investors Think

WHAT DO COMPANIES DO WELL?

receive a cohesive and consistent story, builds credibility and trust and reliability in reporting practices.

- Best practice for companies is to centralise all relevant information in one easily accessible location on their website, typically within the investors section. This centralised hub could include clear descriptions of the contents of each report to guide investors effectively. Additionally, cross-referencing tables to commonly used frameworks such as CSRD, SASB, and GRI can enhance transparency and ensure that investors understand the company's intentions regarding sustainability reporting.
- Companies that focus on consistency and standardisation across sustainability metrics, with clear measurement principles and disclosure of assumptions help investors understand reliability and comparability.
- Investors appreciate companies increasing acknowledgement of the necessity of external assurance for sustainability data and value when companies remain adaptable and committed to learning and improving in this evolving area.
- Companies that anticipate and adapt to changing regulatory and reporting landscapes with a practical approach to disclosures and seek clarity on investor preferences foster greater alignment and understanding.
- When companies invest effort in understanding investors' objectives, including diverse client demands and internal policies a more effective dialogue will result. Understanding whether investors are focusing on systemic risks or specific company issues and their underlying motivations and request will ensure that information and actions are tailored.

Governance & Voting

- Companies that proactively ask 'how do you make voting decisions'?
- Investors prefer clear and concise outlines of key policy changes from companies.

Assurance & Audit

- When companies provide clarity on what they are doing above and beyond regulatory requirements
- Board governance days, where companies will have all their Audit Committee, and other committee chairs and the Board Chair available to speak to investors. The Audit Committee Chair could present on the key issues with opportunity for investors to ask questions.
- When Audit Committees put out a letter once a year outlining the key changes they are making, this provides a clear understanding to investors and an opportunity to engage or not.

What Companies & Investors Think

WHAT DO INVESTORS DO WELL?

Overall

- Corporate access teams within institutions were praised by companies for facilitating broader access and coordination with various parts of the organisation. Some of the bigger investors have set up corporate access desks, for both fund management and stewardship issues, which are seen to very effective and valuable.
- Forward-thinking investors are innovating by deploying internal tools that enhance information exchange and streamline coordination efforts with companies.
- Some institutions openly tell companies exactly which of their funds hold their shares and who is responsible for the position and this was cited as very helpful with targeting engagement efforts more effectively.
- Several institutions had put on 'reverse roadshows' for companies, inviting them to hear more generally about their approach, structure, strategy, policies and key focus areas.
- Investment Bank industry conferences were cited as being great conduits for meeting large numbers of investors and particularly the 'fireside chats' for their CEOs to get messages out more broadly.
- When companies sense that an investor is genuinely 'invested in the management team,' fostering constructive conversations even during challenging times, a strong sense of support and trust emerges. This supportive dynamic allows for open two-way dialogue and enables the business to make informed and long-term decisions.
- When investors act as effective 'non-executives', companies find themselves engaged in broader, more meaningful strategic dialogues. This engagement allows for a deeper understanding of each other's perspectives and long-term considerations for the company, fostering a relationship built on mutual learning and shared strategic vision.
- Clear messaging and reinforcement from shareholders that it is acceptable to prioritise three or four issues relevant to their business, rather than attempting to cater to every stakeholder's demands was welcomed. This targeted focus allows companies to streamline their efforts and allocate resources more effectively, fostering a strategic alignment around the core objectives.
- When investors delve beyond the surface-level data and invest time in understanding the nuances behind the numbers, it signals a productive relationship. For instance, shifting the focus from generic metrics like 'number of women on the board' to exploring the dynamics and operations of the board reflects a commitment to understanding the intricacies of the company's governance and decision-making processes.

Sustainability

- Companies value when investors are clear on issues and support companies to test, learn, and make progress and appreciate when investors understand that solving challenges overnight isn't realistic and

What Companies & Investors Think

WHAT DO INVESTORS DO WELL?

they emphasise a gradual process of improvement and adaptation.

- Investors that move beyond short-term returns and engage in a deeper dialogue that involves understanding a company's long-term vision, its strategies for navigating sustainability challenges, and the integration of ESG considerations into core business practices.
- Open and clear dialogue, where both corporates and investors acknowledge the dynamic nature of sustainability challenges, share insights and commitment to learning and adapting.
- Investors who set the tone of a conversation by providing context for their data requests make a significant impact. For instance, they may explain that in order to retain companies in their fund, they require specific information to meet reporting and labelling requirements. This transparency helps companies understand the importance and urgency behind the requests.
- Investors that engage with companies meaningfully, seeking data points that truly help understand the business, focusing on quality over quantity.
- Some institutions openly communicate to companies the external ratings, agencies, and data providers they value, along with how this information feeds into their proprietary systems. For instance, institutions such as LGIM provide an online database which shows companies information about the metrics they use and how companies are assessed.
- Investors who invest time in reviewing a company's key materials and familiarise themselves with key issues are highly valued. This allows discussions to move beyond superficial information gathering to meaningful engagement focused on addressing real issues.
- When investors recognise the evolving nature of sustainability standards and acknowledge the infancy of data and reporting in some areas it gives companies confidence to continually learn, develop and refine approaches.

Governance & Voting

- Investors that explain their voting process and decision-making more thoroughly and advise companies in advance how they are going to vote.

Assurance & Audit

- Investors who proactively reach out to speak directly with Audit Committee Chairs to build relationships and gain insight into their roles and responsibilities are highly valued.
- Investors that provide clarity on the questions they have and the issues they're concerned about enable the Audit Committee Chairs to better comprehend their perspective and address their concerns effectively.
- Clear discussion between investors and Audit Committee Chairs on broader issues helps transparency and enhances the quality of the interactions.