GOVERNANCE & VOTING DIALOGUE:

The Role of Shareholder Voting in Stewardship

Issues frequently arise with the mechanics of voting, the role of proxy agents and the interpretation of voting signals. There is a need for greater clarity on the roles of different actors in the system – from investors to corporates and proxy advisers – and a need to reduce friction in order to enable an effective exchange of views.

The question that we set out to address in this dialogue:

> ***How can we refine the framework to ensure timely, accurate, and transparent corporate information, fostering investor and corporate confidence?***

Governance & Voting
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Highlights of this Dialogue

GOVERNANCE AND VOTING

What Is the Key Principle?

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 Did We Discover?

- **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 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 an issue of contention on governance professionals and investment teams being joined up. Investors are adamant there is clear coordination and almost all asset managers have publicly available voting policies and decisions rarely deviate without formal input 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.

What's Next?

- The Investor Forum will monitor developments in the 2024 AGM season:
  - Our platform is available to help connect companies and investors to clarify issues and facilitate dialogue in advance of company AGM's;
  - We will convene investors and companies to reflect on lessons learned from the AGM season; and
  - We will work to create an Investor and Issuer Forum which will seek to address issues of systemic concern.

Overview of the Current Market Landscape

Conversations within the Company Secretariat, especially around voting, have traditionally been quite clear, but the landscape is undergoing significant changes with the emergence of climate and a broad range of ESG issues, increasing pressure on asset managers from asset owners, the emergence of pass-through voting and the role of proxy advisors, resulting in an ecosystem that is not very well understood.

Maturity: While the core conversation about voting is well established, the effectiveness of the dialogue can be enhanced and the system is facing major disruptions due to market changes, highlighting the need for proactive engagement.

Challenges and Opportunities: The evolving landscape presents challenges in ensuring clarity, but it also opens up opportunities to shape the dialogue around new voting mechanisms, technology advances and enhancing transparency in decision-making processes.

Access and Governance Are Strengths of the UK Market

Access to UK Boards is perceived as a significant advantage in the UK equity market. Numerous investors have highlighted favourable access to Boards, and individual Non-Executive Directors (NEDs), as a major positive in comparison to certain continental European markets, and US markets.

> *"Overall, the nature of the dialogue between companies and investors is very valuable and positive."*
>
> *- Head of ESG and Stewardship, Asset Owner*

Many recognised the positive nature of governance in the UK and the strength of frameworks such as the Corporate Governance Code and the Investment Association principles. These frameworks serve as comprehensive guidelines widely recognised by all parties. There was acknowledgement that the Corporate Governance Code ensures that all actors in the market can rely on the same minimum standards. The commitment to these principles ensures not only strong governance standards but also elevated levels of transparency, distinguishing UK approach from practices seen in other markets.

> *"We think it kind of works pretty well and that's not to say we don't vote against things from time to time. But I think from our perspective, the system in the UK works."*
>
> *- Director Stewardship, Global Assets Manager*

Challenge however was noted in the layers upon layers of incremental change over the years, combined with the complex and overlapping, but not always co-ordinated, remits of the various regulators in the UK, which is felt to have enhanced complexity in the market. The prevailing sentiment is that strong governance distinguishes the UK approach and provided it remains proportionate, can offer a competitive edge. It was emphasised that the focus needed to be on a 'force for good' and a 'race to the top not a race to the bottom' with overly burdensome and prescriptive regulation.

Many did however acknowledge that there would be different experiences on both sides, and that generalisations were not helpful given the diverse nature of both the investor and corporate participants. Depending what size and type of investor, there is likely a big difference in the access you have to big companies and companies experience different approaches from active and passive investors. Companies increasingly deal with proxy advisors and are concerned about the impact on direct engagement. There were also examples of intermediary hinderances – for example brokers and investment bankers which can hinder direct dialogue.

Although, the UK market was seen overall to have a culture of engagement and constructive dialogue between

Overview of the Current Market Landscape

corporates and investors, when it comes to pay, there is broad consensus that the current emphasis on pay has become a disproportionate focus, overshadowing other crucial discussions. Many investors referenced the heightened sensitivity on this topic in the UK.

> *"Why do we have to spend so much time on remuneration? Why is it getting more complicated all the time?"*
>
> *- Head of ESG and Stewardship, Asset Owner*

It's recognised that redirecting attention to a more holistic range of topics is essential for a comprehensive understanding and effective decision-making dialogue.

Voting Against Risks Becoming a Sign of Good Stewardship

There is a need to shift the perception that voting against a company proposal represents good stewardship, accompanied by a caution against the detrimental impact of benchmarking asset managers' voting behaviours.

> *"The idea that voting against is a sign of stewardship needs to change. Benchmarking asset managers' voting patterns is very harmful."*
>
> *- Senior Global ESG Manager, Asset Manager*

A focus on system-level voting is also on the rise, presenting unique challenges in how stewardship is perceived. This trend tends to favour policy-driven approaches over tailored, nuanced evaluations of individual companies.

With the vast number of resolutions, across potentially large numbers of companies, investors are confronted with a formidable task to execute votes. With the sheer volume of voting tasks, delivering bespoke voting decisions at the individual company level presents a significant challenge.

The challenge often lies in policies dictating votes, resulting in a disconnect from the essence of the individuals elected to the board or the proposals put forth. With the sheer volume of voting tasks, the core intentions may sometimes be overlooked. Depending on the decision-making process, investors may find themselves increasingly reliant on third-party assessments.

> *"It's too simple to just focus on votes against."*
>
> *- Associate Director, Stewardship, Asset Manager*

There is an acknowledgment that investors and companies need to come together, listen to challenges, and work collaboratively towards solutions, to determine the most effective means of communication in this evolving environment.

Summary of market considerations to be acknowledged:

- Access to UK Boards is seen as a significant advantage.
- Strong governance in the UK is considered advantageous, offering a competitive edge if proportionate.
- While the UK market fosters a culture of engagement and constructive dialogue, there's a consensus that the current emphasis on pay overshadows other crucial discussions.
- There's a need to shift the perception that voting against evidences good stewardship.
- Collaboration between investors and companies is needed to address challenges and determine effective communication methods in this evolving landscape.

Voting & Governance Myths

Before delving into key challenges, what works well and actions, it's important to 'bust' some of the myths that we uncovered specific to this dialogue to help set a clear framework for a more productive dialogue.

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 for 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.

Voting & Governance Myths

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.

What Companies Think

KEY CHALLENGES

Accessing Investors

The nature of engagement and dialogue has evolved over time, accompanied by changes in practicalities. Meetings are now more meticulously planned and are characterised by focused discussions with clear agendas centred around specific topics. Outcomes from these discussions are often recorded to evidence fulfilment of stewardship obligations. There is also an acknowledgement of the need for efficient information dissemination.

Another significant issue is the power and influence wielded by proxy advisors, coupled with the lengthy process required to challenge or understand investors' voting behaviours. Voting decisions are usually not taken until after the publication of reports from entities like ISS, which means that companies often only become aware of voting patterns very close to the AGM, making effective dialogue to address differing perspectives challenging.

Compounding this issue is the difficulty in explaining nuances to proxy advisors, often staffed with junior personnel. Investors heavily rely on proxy advisors due to resource constraints, which is an inevitability of the landscape. The limited ability of investors to engage with every company, especially with some considering investments in over 10,000 companies, makes it practically impossible to manage without external assistance.

> *We are voting 10,000 meetings a year. It's impossible, and unnecessary, to go through every full report and consider each resolution individually. ISS as our vendor applies our policies to the company AGMs."*
>
> *- Head of Stewardship, Global Asset Manager*

Understanding Where the Votes Are in the Voting Chain

Corporates have recognised the importance of establishing relationships beyond fund managers, extending to stewardship teams, to grasp their processes and information needs. Bringing these teams together has been helpful in resolving issues and effectively conveying corporate narratives.

> *We need to establish relationships with the people that vote the shares and understand what they look at, and how their process work."*
>
> *- Company Secretary, FTSE100*

Companies do not find it easy to understand the voting processes and decision-making dynamics of different investor institutions. Often, companies experience a notable disparity between conversations with portfolio managers, interactions with stewardship teams and final voting decisions. Companies often struggle to determine precisely where the votes are being cast within the voting chain. This presents a challenge for companies in understanding who the investment decision-makers are, and how the voting decisions are made. This challenge is compounded by the complexity and late nature of the process, especially during the compressed AGM season.

Investors believe that companies should be aware of the multifaceted nature of voting decisions (which often involve input from various internal stakeholders, including portfolio managers, analysts, and ESG specialists) and shouldn't expect spontaneous decisions. Companies find the decision-making process, and the many steps from early consultation through to the final voting decisions, challenging to navigate.

> *Companies shouldn't have the expectation that we'll be able to give a definitive answer on the day."*
>
> *- Associate Director Stewardship, Global Asset Manager*

What Companies Think

KEY CHALLENGES

For companies there is an issue of contention with governance professionals and investment teams being joined up. Investors are adamant that there is clear co-ordination. In practice governance and Investment teams will have differences of opinion. While asset managers strive for consistency, voting decisions are not taken until immediately before an AGM, which means there is scope for misunderstanding after early soundings, particularly on remuneration issues. This perception gap is undermining trust and needs closing. Ultimately almost all asset managers have publicly available voting policies, and it is extremely unlikely that a decision to deviate from a voting policy can be taken without formal input with the investment team

Many investors recognised the need to explain voting decisions more thoughtfully to both corporates and to clients. Best practice would be investors advising companies in advance how they are going to vote. In addition to comprehending the internal dynamics of individual institutional investors, there is the added challenge of understanding the broader framework of the asset owner and asset manager dynamic. Increased transparency would greatly facilitate navigating these complexities.

> **"*It's a challenge for us to understand the context within the investor organisation as well as within the context of the asset owner/ asset manager dynamic. More transparency would be helpful."***
>
> *- Group Company Secretary, FTSE50*

Many companies had set up governance road shows, to address these issues, which had been well received by investors.

What Companies 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.
- 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.
- A number of institutions put on 'reverse road' shows for companies, inviting them to hear more generally about their approach, structure, strategy, policies and key focus areas.

Specific to this Dialogue

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

What Investors Think

KEY CHALLENGES

Simplifying Investor Interactions

Investors across the board express a common desire for simplified interactions when it comes to engaging with companies. There's a prevailing sentiment that companies tend to overlook the significant time constraints faced by investors amidst the deluge of information in today's landscape. With investors inundated by a vast array of data, reports, and communication from numerous companies vying for attention, it becomes challenging to allocate sufficient time to engage meaningfully with each company.

Many investors express frustration over the excessive consultation required each year, particularly concerning remuneration issues where there's a lack of clarity on what necessitates consultation. This often leads to poor returns on effort, encouraging unnecessary tinkering annually which is usually driven by remuneration consultants' recommendations.

> ***"Rem consultations provide a poor return on effort. Consultations encourage tinkering every year."***
>
> *- Head of Stewardship, Global Asset Manager*

Investors and companies alike recognise the need for guidance on which issues warrant consultation, streamlining the process and reducing unnecessary correspondence. Some investors propose that unless there are significant deviations from the remuneration policy, annual consultation should not be necessary, advocating for a more efficient approach aligned with policy renewal cycles, providing companies with a three-year window to act on approved policies, fostering confidence in decision-making processes.

> ***"If the rem policy has been approved, the company has a three year window to act on it and should have the confidence to do so."***
>
> *- Head of Stewardship, Global Asset Manager*

Optimising Engagement Timing

Optimising engagement timing is a multifaceted challenge for investors, as they strive to strike a delicate balance between engaging with companies only when necessary and satisfying company desires which are typically for more immediate interactions. Investors recognise the importance of engaging with companies at strategic times, after results, in advance of annual meetings or when significant developments occur. These engagements allow investors to gain insights into companies' performance, strategies, and governance practices, enabling informed decision-making regarding their investment portfolios. However, the challenge arises when investors face the pressure to engage more frequently.

> ***"There isn't necessarily an expectation to have regular dialogue throughout the year, because there is also respect that we would like to see management do their day jobs."***
>
> *- Head of Stewardship, Global Asset Manager*

Moreover, the challenge of optimising engagement timing is compounded by the diverse preferences and priorities of investors within an institution and across the market. Some investors may prioritise regular updates and face to face meetings, while others may prefer a more lighter touch approach to engagement.

What Investors Think

WHAT DO COMPANIES DO WELL?

Overall

- Companies that prioritise clear communication and proactive engagement in favourable conditions 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.

Specific to this Dialogue

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

What Companies & Investors Think

SHARED CHALLENGES

Managing Effective and Timely Engagement Efforts Whilst Balancing Time and Resources

Optimising engagement timing, especially around the AGM season, presents a multifaceted challenge for investors and companies alike. Early engagement is encouraged to allow investors time for internal consultation, yet the biggest challenge remains companies knowing when to engage with investors and when not to. Many investors feel inundated with requests for engagement on issues they perceive as unnecessary, consuming valuable time and effort. Moreover, engagement trends are shifting towards more automatic processes, sometimes overlooking the 'G' (governance) aspect, which is considered a hygiene factor, raising questions about where and how to make the most valuable use of everyone's time. This dynamic underscores the importance of strategic and purposeful engagement practices that balance the needs of investors and companies, particularly during critical periods such as the AGM season.

A number of companies seek consultation outside of the AGM season, particularly around remuneration, and even though well intentioned can present challenges. Initial off-season meetings with the Chair and Remco Chair to share thinking on policy changes, new remuneration proposals or broader strategic priorities are well received by investors and companies often take away 'warm fuzzy feelings'. However, sometimes by early spring, when actual voting decisions are taken, the world may have evolved, rendering previous discussions outdated. This evolution can create complications, as investors' initial feedback may no longer be valid. Consequently, the Company Secretary attempts to reconnect with investors, but this process can be cumbersome. Circumstances may have evolved, and investors may not have communicated updated perspectives. This lack of synchronisation often leads to misunderstandings, and surprises.

Despite its cumbersome nature, investors have expressed appreciation for early consultation, well ahead of the AGM season, and have indicated a desire for more companies to adopt it to mitigate surprises. That said, since actual voting decisions are not taken until the run up to the AGM, at the end of an early consultation process, it would be helpful for companies to provide a concise summary of the status of the consultation in an effort to avoid misinterpretation.

> ***"The problem is that investors don't give clear responses to consultations. As a result, Investors often feel they haven't been listened to and companies don't take away clear messages."***
>
> *- Company Secretary, FTSE100*

Investors emphasised the importance of differentiating between engaging on policy matters and having a clear conversation about expectations regarding votes and the remuneration report. Since investors won't have access to the details until March or April when outcomes for the past year are available, companies should aim to engage on any issues that may arise in the remuneration report.

Simplifying the Complexity of Remuneration

The overarching message from investors was that remuneration simplification is needed. Packages are too complex and driven by consultants. Call for companies to streamline and simplify their plans and reporting with an acknowledgement that this has grown over time and is stifling the ability of companies to perform.

In principle, investors are happy to pay for performance, but they will assess each company proposal at the time of the AGM and make voting decisions on a case-by-case basis.

What Companies & Investors Think

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Over the years, more regulation has been added and investors have requested more information, more granular targets and more nuanced metrics and have contributed to what we see now as a hugely complex set of matrices for both bonus plans and long-term incentive plans. There is a feeling that we have lost sight of the core principles on executive pay which are recruit, retain, motivate, align.

> ***"We are not opposed to a fair reward, but there seems to be an issue with peer groups not being representative. There needs to be a link between remuneration, strategic execution and the impact on employees. Rarely do companies talk about key risk in Rem discussions."***
>
> *- Global Head of Equity Research, Global Asset Manager*

A few investors made the point that asset managers and asset owners look at different things when it comes to remuneration. Asset managers look at structure and incentives and want the executive team aligned with them, while asset owners may focus more on quantum and fair distribution.

> ***"More and more controls have been added – deferrals, clawblack and malus, downside only discretion, introduction of ESG metrics etc. There are so many restrictions that Exec pay can't deliver what it was designed to do."***
>
> *- Global Head of ESG Investments, Global Asset Manager*

Some investors expressed the feeling that the metrics for remuneration have expanded to a 'very long laundry list' of targets including personal targets and once they get measured, the sense from many investors is that the nature of the metrics makes it almost impossible not to get a payout.

> ***"Timing of engagement is important and can make a big difference. When companies are consulting on rem, we want to be involved in seeing the proposal at an early stage– so we have an opportunity to shape it in some way."***
>
> *- Associate Director Stewardship, International Asset Manager*

The challenges in navigating remuneration votes are a widespread source of concern and friction, especially when companies face differing preferences from investors on metrics such as Total Shareholder Return (TSR) versus alternative metrics.

> ***"If you look at the UK as an example, we have all the different elements to imply good governance around pay, and it kind of makes sense. But if you add all the component parts together, it's excessive and maybe too restrictive."***
>
> *- Associate Director, Stewardship, International Asset Manager*

What Companies & Investors Think

SHARED CHALLENGES

Given that remuneration policies may not satisfy every investor – some preferring TSR while others don't – it's crucial to understand investors' policies. Some companies have found that if an investor opposes use of a particular metric, engaging may prove futile.

Changing Asset Owner/Asset Manager Dynamic

Many asset managers expressed concerns about companies' lack of understanding regarding the demands and scrutiny placed on them by their clients, asset owners, and NGOs. Asset managers face significant pressure from asset owners to deliver strong returns on investment while also considering ESG factors. Asset owners, increasingly demand responsible and sustainable investment strategies that align with their values and risk management goals. This pressure often translates into asset managers exerting influence on companies to improve their ESG practices.

As asset owners increasingly mandate asset managers to demonstrate engagement outcomes, the pressure on asset managers has led to the evolution of engagement practices. This shift means that sometimes engagements can become issue-driven, rather than about the company itself and, sometimes, the focus can shift to outcomes that can be easily measured, such as voting patterns, letters written, or the number of engagements undertaken. These changes reflect the evolving expectations and priorities within the investment landscape.

> ***One of challenges we face is how we can better communicate to companies that we are representing the interests of our clients, and our clients may have multiple different preferences dependent on their ESG-related objectives."***
>
> *- Head of Stewardship, Global Asset Manager*

This discord underscores the complexity inherent in balancing competing interests. Moreover, the imperative to demonstrate impact and outcomes through voting and engagement can sometimes clash with achieving optimal results for the company. While a company's practices may not always align with industry best practices, they may be reasonable within the company's unique circumstances.

> ***The need to demonstrate impact and outcomes through voting and engagement can conflict with getting the right outcomes for the company. A company's practices might not align to what is considered best practice for the UK Code, but may be reasonable in the company circumstances."***
>
> *- Head of Corporate Governance, Global Asset Manager*

This divergence can create a breakdown in communication between asset managers and companies and can also exacerbate a divide between asset managers and asset owners. A positive approach centred around identifying common interests and fostering alignment is essential for effective engagement strategies, highlighting the importance of companies understanding the dynamics with asset owners.

> ***There is often a challenge between what corporates want to cover, what clients want us to cover and what regulators want us to cover – these don't aways match!"***
>
> *- Head of Stewardship, Global Asset Manager*

In the future more asset owners might directly vote their holdings – so there will be a challenge for companies to understand voting patterns given much more fragmented voting outcomes, and potentially mixed messages. Companies will need to navigate the different parties

What Companies & Investors Think

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who control the investment and the voting decisions with particular vigilance when facing contentious issues.

> ***"Companies will need to understand that the underlying owner who retains the voting rights won't necessarily appear on their register – so they will need to be prepared to reach out to ensure that they are covering all the bases."***
>
> *- Corporate Governance and Voting Lead, Asset Owner*

> ***"If Asset Owners take more control, we need to think what the repercussions might be."***
>
> *- Senior ESG Manager Global Asset Manager*

Balancing the Need for Broader ESG Information

The heightened focus on ESG criteria presents a significant challenge for companies, primarily because it may not always align with material issues pertinent to their operations. While companies acknowledge the importance of addressing ESG considerations, the challenge lies in determining which factors are truly material to their business and stakeholders. In some cases, the ESG priorities emphasised by asset managers may not directly correlate with the core challenges and opportunities faced by individual companies. Consequently, companies may find themselves diverting resources towards addressing ESG issues that are perceived as less relevant or impactful to their long-term sustainability and performance. Striking a balance between addressing ESG concerns and focusing on material issues requires careful strategic alignment and transparent communication between companies and their investors to ensure that efforts effectively contribute to sustainable value creation.

Navigating the Regulatory Maze

Navigating the regulatory maze presents a huge challenge for both investors and corporates given the intricate relationship within the value chain, spanning from supply chains to asset owners. This challenge is amplified by the need to adapt strategies and engagement approaches amid a fast-changing landscape of reporting requirements and evolving legislation on a global level, especially concerning ESG factors.

> ***"Fundamentally, what we all want as employees, as perspective pensioners – we all want to ensure there's a vibrant economy in the UK, and that companies can be individual in their approach and not marked off against a checklist."***
>
> *- Company Secretary, FTSE100*

For corporates, compliance with a myriad of regulations, reporting standards, and disclosure requirements is paramount, while they focus on what is material and relevant to their business operations. Striking a balance between meeting regulatory obligations in different markets, maintaining business as usual, and pursuing strategic initiatives that drive long-term value creation is crucial. Many corporates express concern regarding the overreliance and emphasis on nascent ESG data by investors, which jeopardises a comprehensive understanding of business dynamics.

> ***"The appropriate governance structure for companies that operate solely in the UK versus those that operate globally are likely to be different. We need to ensure that UK companies that operate globally are competitive in that context."***
>
> *- Company Secretary, FTSE100*

What Companies & Investors Think

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Also, investors grapple with staying abreast of regulatory changes and assessing their implications on investment decisions. They must navigate complex regulatory frameworks and evolving legislation to make informed investment choices aligned with compliance requirements, risk tolerance, and investment objectives. Moreover, investors must consider how regulatory developments may influence corporate performance, governance practices, and overall investment viability of the companies they invest in, ensuring a holistic approach to value creation and risk management throughout the value chain.

The increasing emphasis on asset managers demonstrating outcomes as a form of stewardship in their reporting is posing challenges for companies. Companies are mindful of avoiding discussions that could lead to negative mentions in an investor's stewardship report. This aspect adds complexity to the engagement process. Case studies posed a significant challenge for companies. Many investors shared their intended case studies for approval with the companies in advance. Company secretaries have advised Chairs and RemCo chairs that clarity is essential if they wish to avoid certain topics being documented as case studies. However, case studies have emerged as a crucial method for investors to demonstrate engagement outcomes. As a result of the discussion, there was a consensus on the importance of understanding this dynamic. Participants emphasised the need for collaborative efforts to develop approaches that satisfy all parties involved.

What Companies & Investors Think

WHAT DO INVESTORS DO WELL?

- 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. This targeted focus allows companies to streamline their efforts and allocate resources more effectively, fostering a strategic alignment around the core objectives.

What Companies & Investors Think

WHAT DO COMPANIES DO WELL?

- 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.

Actions for Companies & Investors

TOP TIPS FOR COMPANIES

- Establish a feature on all corporate websites where investors interested in engaging with the company based on their holdings can easily sign up and be added to the distribution list. This centralised approach would mitigate the challenge investors often face in locating the appropriate person to engage with. All company secretaries would agree to maintain uniformity across their respective company websites, streamlining the engagement process for investors.
- Ensure broad consultation when implementing significant changes. Failure to do so may catch the rest of the market by surprise close to the AGM, leading to potential negative responses in voting outcome.
- Tailor engagement strategies by identifying preferred modes of communication with your investors, such as meetings, emails, or conference calls and agreeing on the frequency and timing of engagements to ensure mutual convenience and effectiveness.
- Determine the purpose of any meeting – information gathering or investment decision-making.
- Set clear agendas for all meetings and establish clarity on the attendees and their roles/interests.
- Encourage investors to share questions or topics of interest before the meeting to maximise effectiveness and address specific concerns.
- Build in 5-10 minutes at the end of each meeting for direct feedback from investors.
- Understand the specific information needs of the investor, whether it's financial performance updates, strategic insights, sustainability issues or governance practices and investor expectations in terms of attendee.
- Tailor communications to meet the needs of your different audiences – credit, equity, ESG – as each has different interests and priorities, investment strategies, risk appetite, and long-term goals.
- Communicate with straightforwardness and authenticity in all interactions to build trust and credibility.
- Understand the materiality of issues within your company and use this understanding proactively to address regulatory requirements.
- Align reporting efforts with strategic objectives to ensure coherence and relevance.
- Understand the diverse needs of different investors and how they utilise data and reporting. Be aware of the pressure and influence of different asset owners mandates on asset managers.
- Tailor your communication and reporting strategies to effectively meet different needs.

Actions for Companies & Investors

TOP TIPS FOR INVESTORS

- Create one-page expectation documents focusing on specific issues, complementing lengthy stewardship reports. These succinct documents would highlight the most significant topics of interest, ensuring clarity and accessibility for companies.
- Create and monitor a centralised contact@ email to enable companies to make direct contact.
- Consider setting up corporate access desks to facilitate broader access and coordination across organisation.
- Create fact sheets on investment organisation. Including voting policies.
- Consider providing greater transparency to companies on which funds are invested in the company, and which are passive.
- Encourage internally joined up meetings with governance specialists and portfolio managers, and where appropriate fixed income investors, when discussing key issues.
- Instigate reverse road shows to explain structure, approach and key focus areas (e.g. leverage Stewardship reporting).
- Collaborate with other like-minded investors on key issues to amplify the collective voice and influence. By pooling resources and expertise when relevant, investors can enhance their effectiveness on some issues.
- Reinforce the acceptance of prioritising three or four issues relevant to the company's business.
- Encourage companies to streamline efforts and allocate resources effectively, aligning with core objectives and strategic focus.
- Invest time in understanding the nuances behind the numbers and metrics presented by companies.
- Provide clarity on your key issues of interest.
- Join up thinking internally between fund managers and stewardship teams.