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ABOUT THIS REPORT

THIS REPORT OUTLINES THE STEWARDSHIP ACTIVITIES OF INVESTMENT ASSOCIATION (IA) MEMBERS WITH RESPECT TO UK COMPANIES AS OF 30 JUNE 2018. THE FINDINGS ARE BASED ON SURVEY RESPONSES FROM 59 FIRMS, REPRESENTING 71% OF THE £7.7 TRILLION MANAGED IN THE UK BY IA MEMBERS.¹ A LIST OF RESPONDENTS CAN BE FOUND IN ANNEX 1.

Throughout the report there are references to “stewardship”, “engagement” and “voting”. The Stewardship Code (‘the Code’) defines stewardship as follows: “For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings”.

So broadly, in this report, ‘engagement’ means the monitoring of and interaction with investee companies and ‘voting’ the exercising of voting rights attached to shares, with ‘stewardship’ encompassing both engagement and voting.

Previous versions of this report focussed on policies of signatories to the FRC Stewardship Code, which included asset managers, asset owners and service providers. In contrast, this edition of the report focusses on the stewardship activities of asset managers and members of the IA specifically.

All respondents to the survey were signatories to the Code, except one that indicated it intends to sign up to the Code in the future. Being a signatory involves setting out a policy on how stewardship activities are discharged and making it publicly available. In 2016 the FRC assessed signatories’ approach to stewardship based on the quality of their Code statements. The aim was to improve the approach to stewardship, as well as the quality of reporting against the Code, encourage greater transparency in the market and maintain the credibility of the Code. This resulted in signatories being assigned into two tiers. Tier 1 signatories provide good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary. Tier 2 signatories meet many of the reporting expectations but report less transparently on their approach to stewardship or do not provide explanations where they depart from provisions of the Code. The majority of respondents to this survey (86%) were in Tier 1.

This report is structured in four sections:

• **Section 1** outlines asset managers’ role as a key part of the accountability chain in corporate governance and explains the dynamics between asset owners and asset managers, thus setting the context for the following sections.

• **Section 2** describes how asset managers engage with their investee companies in the UK, including what resources they dedicate to this, their processes and outcomes. This includes specific examples where IA members engaged successfully but also unsuccessfully with UK companies, showcasing how engagement works in practice.

• **Section 3** provides an overview of asset managers’ voting behaviour, showing in which regions they exercise their voting rights, how they have voted on different matters for UK companies and whether they communicate in advance their intention to vote against or abstain.

• **Section 4** looks at asset managers’ reporting on their stewardship activities to their clients as well as publicly.

The IA would like to thank all member firms that have responded to this survey.

EXECUTIVE SUMMARY

The members of the Investment Association manage more than £7.7trn of assets on behalf of pension savers and investors around the world. That money is used to support people in their retirement, invest in infrastructure and to help the UK economy grow.

Asset managers play a key role as stewards of that money, ensuring that it is invested for the long-term to deliver good returns for savers and investors. To help ensure these sustainable, long-term outcomes, asset managers undertake a range of activities to understand and engage with their investee companies.

The UK is recognised internationally as a leader on stewardship, and this report sets out how actively asset managers are carrying out these activities in order to help support companies and ensure long-term benefits for savers and investors.

A key part of being a good steward is having engaged asset owners who set concrete expectations on how asset managers carry out their stewardship responsibilities. Approximately two thirds of asset managers were expected to be active stewards by 75% or more of their institutional clients.

Our survey shows that asset managers are taking this responsibility seriously, as reflected in the way they structure their stewardship resources. Nine out of ten asset manager rely mainly on in-house capabilities to carry out engagement and voting and the average in-house stewardship resource is approximately 33 professionals per asset management firm. This consists mainly of portfolio managers and analysts, indicating a significant degree of integration of stewardship into the investment process. The in-house resource is complemented by proxy voting service providers that are used by 55% of asset managers for recommendations based on the asset managers’ stewardship policies, although members confirmed that they may or may not follow these recommendations. 89% use proxy agencies for processing voting instructions.

All this feeds into the monitoring and escalating processes that are in place with asset managers prioritising for engagement companies where there are significant issues and where they are large shareholders. IA members indicated that, the most important issue for engagement was company strategy followed by financial performance, capital allocation, leadership and executive remuneration. These were also the issues that asset managers ended up engaging on most frequently albeit executive remuneration was ranked in third place for frequency.

IA members also engage on topical issues across their UK holdings. Over 70% of asset managers engaged with UK companies on long-term drivers of productivity identified in the IA’s Productivity Action Plan. At the same time, with the advent of gender pay gap reporting this year, 56% of asset managers engaged with UK companies on gender diversity and 42% made a voting decision based on this.

Although conflicts of interest arose for 39% of asset managers at least once in the year to 30 June 2018, the existence of set policies meant that these did not act as a barrier to engagement. Altogether, IA members reported over 7,100 instances of engagement with UK companies over the same period, averaging 158 engagements per asset manager. Slightly over half of this activity involved a one-off communication as part of ongoing relationship management and 27% of cases involved a one-off communication to address a specific issue.

IA MEMBERS REPORTED OVER
7,100 INSTANCES OF ENGAGEMENT WITH UK COMPANIES
Where necessary, asset managers can engage collectively with others to escalate concerns or provide a unified industry voice. 75% of respondents engaged with other investors mainly via direct communication or through representative bodies such as the IA and the Investor Forum.

Altogether, the quality of engagement with UK companies was rated as ‘excellent’ for, on average, 26% of cases and ‘good’ for 41% of cases. Significantly, 80% of asset managers reported that engagement led to better investment decisions and for 30% this was considerably so. Furthermore, over 50% changed the nature of their dialogue with investee companies as a result of their experience and the case studies highlighted in this report demonstrate the impact that asset managers are having across a wide range of issues such as executive pay, effective governance, capital structure, M&A activity and the environment.

Moreover, as responsible investors, asset managers are systematically exercising their voting rights worldwide with all respondents reporting that they exercised voting rights in the UK. Over half (59%) of respondents do not engage in stock-lending but for those that do, three quarters recall stock that is on loan for contentious issues.

In terms of voting decisions in the year to 30 June 2018, on average 89% of the votes cast for UK companies were in favour, 9% against and 2% abstained. Additionally, 35% of asset managers always inform companies of their decision to vote against or abstain and 60% do so sometimes.

Both engagement and voting activities are being reported back to retail and institutional clients and, additionally, there is widespread reporting in the public domain. Specifically, 85% of respondents disclose their voting records publicly either as a full list or as a summary and 57% publish a report containing details of their engagement activities. There remain, however, concerns that detailed disclosure of the content of the dialogue could damage trust and the long-term relationship with investee companies.

All of these findings come at a time when the stewardship landscape is changing. Stewardship is an ever evolving concept, and we need to ensure that the principles that sit behind the practice are updated accordingly. The upcoming review of the FRC’s Stewardship Code provides the perfect opportunity to reflect on how stewardship is currently measured and delivered. Investors want to see the Code develop to reflect those changes, for example taking better account of how stewardship takes material environmental, social and governance (ESG) factors into account.

It is also crucial to recognize that the Stewardship Code focuses on policies, which is only one element when it comes to improving stewardship. In order to continue to grow stewardship in the UK and improve its effectiveness, any amendments to the Code need to be accompanied by changes to the environment in which stewardship operates.

A more demanding and discerning client base will help to develop market practice and increase competition in the industry on stewardship. This can be created with better education for clients and the wider public of what stewardship is, why it is important and what it means in practice. Stewardship and long-term investment factors should also be better incorporated into the mandate design, which sets out the relationship between asset managers and asset owners.

It can also be achieved by focussing on improving and drawing attention to the public disclosure of stewardship activities by investment managers. By being more open about how they conduct stewardship, investors can also help to create awareness of the value of stewardship, and allow clients to identify the different approaches of different asset managers.

It is clear that asset managers are taking their responsibilities seriously and are dedicating significant resource to their stewardship activities. It is vital that this investment of time and resources continues as the breadth of stewardship activities changes.
The role of asset managers as stewards of their investee companies can be better understood by examining how asset managers fit into the wider corporate governance landscape. Company Executives set the strategy of the company and are responsible for implementing that strategy on a day-to-day basis. These Executives are overseen by Non-Executive Directors. And all board directors have to fulfil their Director Duties and are accountable to the company’s shareholders.

Asset managers are accountable to their clients, the asset owners, in terms of how they manage their assets and the returns they deliver, including how they act as stewards of the companies in which they have invested on behalf of their clients. Figure 1 presents a stylised version of the chain of accountability.

Asset managers engage with investee companies to ensure the Board is addressing the long-term issues which could impact the value of these companies. This involves conducting analysis and research as well as setting out clear expectations to the investee companies about the standards they are expected to adhere to.

Asset managers’ stewardship responsibilities exist independently of management type, i.e. whether assets are managed predominantly on an active or passive basis. Passive managers are expected to be active in stewardship as they cannot exit their investments and so stewardship is viewed as a way to raise returns across the index for clients. Active managers have the advantage of using the threat of exit as a disciplining mechanism and companies may be more responsive to them as a result. However, given the inflexibility of choice in holding all constituent companies in an index, passive managers have the advantage that they remain invested in companies as long as they remain a constituent of the index, which can lead to long term relationships.

The asset owners’ role is to select asset managers on the basis of their ability to deliver sustainable long term returns. As set out in the Stewardship Code, asset owners: “set the tone for stewardship and may influence behavioural changes that lead to better stewardship by asset managers and companies”. Asset managers, on the other hand: “with day-to-day responsibility for managing investments, are well positioned to influence companies’ long-term performance through stewardship”. Thus asset managers tend to be primarily responsible for carrying out stewardship activities and asset owners for specifying how they want their assets to be managed.

It is best practice for the asset owners to make their expectations regarding stewardship clear to asset managers. Approximately two thirds of respondents to the IA survey reported that 75% or more of their institutional clients expect them to exercise stewardship in relation to their holdings (Figure 2). Notably, the majority referred to stewardship, i.e. both engagement and voting, as opposed to one or the other separately. This would imply that asset owners are aware that stewardship goes beyond just exercising voting rights.

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2 Financial Reporting Council, the UK Stewardship Code, September 2012.
3 These boundaries are sometimes blurred, particularly where large asset owners develop an in-house asset management arm or when an asset manager outsources stewardship fully or partly.
Asset managers devote significant resource to ongoing monitoring and engagement with companies – as explored in more detail in Section 2. Depending on the circumstances there are various options they may wish to pursue to try and secure a better outcome for their clients:

- **Voice** – asset managers can attempt to exert influence over the Board by regular communication and meetings as part of ongoing relationship management and to voice any concerns privately.

- **Escalate** – where voicing concern isn’t effective for any identified issues, asset managers might escalate their approach, for example by increasing the number of meetings with the Board or joining together with other investors. The latter can happen informally or more formally through representative bodies such as the IA or other organisations such as the Investor Forum. Other ways in which asset managers can escalate their concern involves making public statements and requisitioning resolutions at company AGMs.

- **Vote** – asset managers can express concern with the company’s approach by voting against resolutions at a general meeting. Voting against management recommendations is another way to escalate concerns, and this may happen after having spent time to engage with companies to understand their rationale behind resolutions, and to conduct analysis to ensure they are making an informed decision about which way to vote. It is important to stress that voting against or abstaining from voting is an indication that the engagement up to the point of the AGM has not brought about the desired outcome. If the asset manager conducts an engagement with a company which results in a change in the company’s approach, this will allow the investor to vote in line with the board recommendation.

- **Exit** – should a poorly-governed company refuse to consider asset managers’ concerns, and asset managers believe that it is not in their client’s long term interests to remain as shareholders, the asset managers may sell their holdings. As discussed above, this is an option that is open only to active managers.

An important division of responsibility is that asset managers cannot and should not be involved in the management of their investee companies. As shareholders they carry out an oversight role and focus on companies’ long-term strategy and performance rather than micro-manage company executives. This is reflected in the nature of the dialogue between asset managers and investee companies as discussed further in Section 2.

Engagement and voting can be carried out by the asset management internally or can be outsourced. The latter tends to happen mostly where investment decisions are also outsourced but in any case the responsibility for carrying out stewardship still lies with the asset manager. The majority of asset managers carry out their engagement and voting in-house although slightly more outsource voting (Table 1). Respondents explained that in the few cases where engagement is outsourced, external parties are monitored mainly via regular review meetings and in some cases formal verification e.g. AAF01/06. One respondent added that it has a ‘Responsible Investing Committee’ overseeing on an ongoing basis the external managers’ stewardship activities.

### Table 1: How Stewardship is Conducted

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>Engagement</th>
<th>Voting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainly in-house</td>
<td>95%</td>
<td>90%</td>
</tr>
<tr>
<td>Mainly outsourced to external parties</td>
<td>5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Sections 2 and 3 report on engagement and voting activities respectively where these are mainly carried out in-house.
2 ENGAGEMENT

The 56 respondents that carry out engagement mainly in-house employ a total of 1,859 portfolio managers and analysts, stewardship specialists and others that exercise in some shape or form stewardship activities in relation to UK companies. This would imply an average in-house resource of approximately 33 professionals in each firm. Importantly, the majority of this resource is portfolio managers and analysts suggesting a significant degree of integration of stewardship into the investment process as the individuals responsible for investment decisions are also active in stewardship (Figure 3).

![Figure 3: Breakdown of in-house stewardship resource](image)

The in-house resources are sometimes complemented by third party service providers that process voting instructions, make voting recommendations, provide research or offer other bespoke services. The majority of asset managers use such proxy voting and other advisory services in relation to UK holdings, with 89% using a provider to process voting instructions, 84% use a service provider to provide proxy research, which helps them make informed voting decisions. 63% of respondents use a service provider to provide voting recommendations that may or may not be followed by the asset manager. In most cases, asset managers use one service provider. Where more than one service providers are used, this tends to be for providing research (Figure 4).

Where service providers are used for recommendations, all respondents have specified that these are tailored to their own stewardship policies rather than being based on the proxy advisor’s standard policy.

![Figure 4: Use of proxy voting and other advisory services](image)

Monitoring of investee companies is not only a key part of the investment process but also forms a principal component of engagement as it determines whether engagement and especially escalation – the steps of ‘voice’ and ‘escalate’ discussed in Section 1 – are needed. As with previous surveys, respondents indicated that the main mechanisms used to monitor UK investee companies are in-house as well as third party research and direct contact with the companies themselves (Figure 5).

![Figure 5: Monitoring and prioritisation](image)

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\* For example, see “Stewardship in Practice – Asset Managers and Asset Owners” by the IA and PLSA, September 2017, page 19.
In the context of diversified portfolios – meaning small holdings in a relatively large number of companies – combined with constrained resources, asset managers need to prioritise which companies to engage with. Respondents indicated that they focus their stewardship activities on cases where there are significant issues, followed by those where the asset manager is a large shareholder and then, where the holding forms a material part of the assets managed. Whether the holding concerned is actively or passively managed was the least important consideration (Figure 6).

When it comes to actual engagement activity, IA members reported 7116 instances of engagement with UK companies in the year ended on 30 June 2018, averaging 158 engagements per asset manager. Slightly over half of these involved a one-off communication as part of ongoing relationship management, which could be linked to an AGM or other voting issues, whereas 27% involved a one-off communication to address a specific issue. Only 4% of these cases involved escalation or a public statement following repeated discussion throughout the year (Figure 7).

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**FIGURE 5: MONITORING APPROACH**

<table>
<thead>
<tr>
<th>Approach</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-house research and analysis</td>
<td>100%</td>
</tr>
<tr>
<td>Third-party research</td>
<td>96%</td>
</tr>
<tr>
<td>Direct contact with investee companies</td>
<td>96%</td>
</tr>
<tr>
<td>Contact with other investors/stakeholders</td>
<td>70%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
</tbody>
</table>

**FIGURE 6: PRIORITISATION OF ENGAGEMENT**

- Significant issues
- Large shareholder
- Material holding
- Active holding

**FIGURE 7: ENGAGEMENT INTENSITY**

- Level 1: one-off communication 54%
- Level 2: one-off communication and meeting 27%
- Level 3: year-round repeated communication + discussion 15%
- Level 4: escalation and/or public statement 4%

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5 45 respondents provided data for this question.
For the majority of respondents (56%), ongoing-relationship engagement was with more than 50 UK companies during the year. Where the engagement was to address a specific issue, it was with a smaller number of companies. 46% of respondents engaged with 10-50 companies during the year, and 36% of respondents engaging with 10 companies or less—where it was initiated by the Company (Figure 8). This implies that asset managers meet more companies for general discussion than they do to discuss identified problems.

The topic that asset managers considered most important to engage on is company strategy followed by financial performance. Unsurprisingly, these were the two issues on which asset managers actually engage most frequently with companies.

Generally, the top five issues that asset managers consider most important are those on which they engage most frequently but the individual rankings differ slightly (Table 2).

### TABLE 2: RANKING OF ISSUES FOR ENGAGEMENT

<table>
<thead>
<tr>
<th>Importance rank</th>
<th>Frequency of engagement rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>1</td>
</tr>
<tr>
<td>Financial performance</td>
<td>2</td>
</tr>
<tr>
<td>Capital allocation</td>
<td>3</td>
</tr>
<tr>
<td>Leadership - Chair/CEO</td>
<td>4</td>
</tr>
<tr>
<td>Executive remuneration</td>
<td>5</td>
</tr>
<tr>
<td>Board composition (incl. diversity)</td>
<td>6</td>
</tr>
<tr>
<td>Culture</td>
<td>7</td>
</tr>
<tr>
<td>Environment incl. climate change</td>
<td>8</td>
</tr>
<tr>
<td>Audit and reporting</td>
<td>9</td>
</tr>
<tr>
<td>Competition</td>
<td>10</td>
</tr>
<tr>
<td>Human capital</td>
<td>11</td>
</tr>
<tr>
<td>Social</td>
<td>12</td>
</tr>
</tbody>
</table>

Capital allocation, although considered important, ranked fifth in terms of actual frequency of engagement. At the same time, executive remuneration is something asset managers engage more often relative to how much importance is assigned to it. This is likely to be indicative of investee companies approaching asset managers pro-actively to discuss remuneration policies and approaches before these are subject to voting at the AGM.
THEMATIC ENGAGEMENT

In addition to the generic issues above, we asked members more detailed questions regarding their engagement on specific topical issues for the industry and policymakers. This year, we focussed on productivity and gender diversity.

Productivity

In March 2016, the IA published its Productivity Action Plan, a report setting out the role of asset managers in delivering more long-term investment to help address the UK’s low productivity. This involved a number of recommendations including specific areas on which asset managers can engage with investee companies to:

- Articulate more clearly and measure long-term drivers of productivity within their company
- Encourage companies to stop quarterly reporting
- Improve reporting on their capital management strategy
- Improve reporting on culture, human capital and intangibles

A large proportion of asset managers, well over two thirds, are engaging with UK companies on these issues (see Figure 9). A small proportion – just under a quarter – are engaging with companies on moving away from quarterly reporting. We have seen progress on this issue in recent years, which may be the reason for a lower level of engagement in the last year.

Gender diversity

Gender diversity on Boards and within senior management teams has been an increasingly important issue for investors. A seminal work in this space was the Davies Review in 2011 that described gender diversity as a business rather than a women’s issue and outlined a number of recommendations for companies to improve gender diversity in FTSE 100 companies. These included achieving a minimum of 25% of women on boards by 2015, disclosing the proportion of women on boards, senior positions and the wider organisation as well as disclosing how they address diversity in recruitment and appointment. Importantly, there was also a recommendation for investors to engage proactively on gender diversity issues.

This was followed by the Hampton-Alexander Review in 2016 which broadly extended the Davies review (that focussed largely on boards) to include the executive committee and their direct reports. The recommendations were more ambitious, namely, to achieve a minimum of 33% women on Boards by 2020, and for investors specifically to treat gender diversity as a key corporate governance issue and have clear processes in place for evaluating disclosures and progress on gender balance for investee companies in the FTSE 350.
A significant recent change in this area was the introduction of a regulatory requirement from April 2017 for all employers with 250 or more employees to publish their gender pay gap figures. Although considered by some as a rather blunt measure, there is no doubt that it has further galvanised the debate on gender diversity.

We have found that over half (56%) of asset managers engaged with UK companies on gender diversity in the year to 30 June 2018, suggesting a considerable level of attention on this issue amongst the industry. In most cases this was with 10 companies or less but 28% of those who did engage on gender diversity, did so with 20 or more companies (Figure 10).

**FIGURE 10: ENGAGEMENT ON GENDER DIVERSITY**

<table>
<thead>
<tr>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>No 44%</td>
</tr>
<tr>
<td>Yes 56%</td>
</tr>
<tr>
<td>Less than 10</td>
</tr>
<tr>
<td>31%</td>
</tr>
<tr>
<td>Between 10 and 20</td>
</tr>
<tr>
<td>9%</td>
</tr>
<tr>
<td>More than 20</td>
</tr>
<tr>
<td>16%</td>
</tr>
</tbody>
</table>

Voting activities in regards to gender diversity are discussed separately in Section 3.

**COLLECTIVE ENGAGEMENT**

Collective engagement, i.e. coordinating with other investors to engage together with an investee company, is encouraged by the Stewardship Code. It is used in order to signal to companies that there are concerns that are widely shared across the shareholder base and is often used as an escalation mechanism where individual engagement has failed to deliver the intended results.

Three quarters of asset managers in our survey reported having engaged collectively with other investors. In most cases this involved communicating directly with other shareholders or through representative bodies such as the IA. Over half (55%) engaged collectively via the Investor Forum (Figure 11).

**FIGURE 11: METHODS OF COLLECTIVE ENGAGEMENT**

<table>
<thead>
<tr>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communicating directly with other shareholders 73%</td>
</tr>
<tr>
<td>Collective engagement through other representative bodies 68%</td>
</tr>
<tr>
<td>Through the Investor Forum 55%</td>
</tr>
<tr>
<td>Other 5%</td>
</tr>
</tbody>
</table>

6 Under the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017
CONFLICTS OF INTEREST

One aspect that may determine the process as well as the content of the engagement is whether asset managers face any conflicts of interest. As agents, asset managers must always act in the best interests of their clients and obviously this extends to stewardship activities.

To mitigate the situation where conflicts of interest may compromise the ability to exercise stewardship, the Stewardship Code requires from institutional investors to have “a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed”. Previous reports have shown that signatories to the Code have such a policy and the vast majority make it publicly available.

However, the question remains what these conflicts of interest are, how often do they arise and how are they managed. In our survey, 39% of respondents reported conflicts of interest when engaging with a UK company, with a total of 418 instances in the year to 30 June 2018. For half of these respondents, conflicts arose in up to five companies.

Most commonly, the reported conflicts of interest involved engagement or voting where the asset manager had a business relationship with the investee company. Examples included investee companies that were clients, e.g. the asset manager was managing assets for the company’s pension scheme or the company itself, or the investee company was acting as a distributor for the asset manager. Frequently, there were cases where the investee company was also the parent company of the asset manager or where one of the investee company’s directors was also a director or Board member of the asset manager. Other examples included owning both debt and equity in the same company and, in one case, conflict arose from personal holdings in the investee company’s shares.

IA members reported various ways in managing such conflicts of interest, such as:

- Escalating to a senior committee within the firm or alerting the CIO and/or the legal and compliance teams.
- Following the voting recommendations of a third party or abstaining from voting on specific resolutions e.g. the re-election of a board member that is connected with the asset manager.
- Assigning the monitoring of the stewardship team’s activities to independent non-executive directors.
- Placing a Chinese wall between client-facing executives and those making stewardship decisions.
- Reallocating engagement to an individual within the firm that doesn’t have any personal holdings in the investee company.

7 The Investment Association, Adherence to the FRC’s Stewardship Code at 30 September 2014 – Table 7, p11.
OUTCOMES

Perhaps one of the most pertinent questions around engagement relates to outcomes: what are the tangible results of engagement? This, however, can be difficult to assess. Outcomes are as unique as the individual companies being engaged with, and each outcome can be judged only in the context of each case. This poses some challenges around aggregating results. Therefore, the following section first summarises the quality of engagement overall, including actions taken following the engagement process, and then provides case studies of engagement.

The quality of engagement was on average rated as ‘good’ for 41% of UK companies while respondents thought it was excellent for 26% of companies. Only 10% of cases were poor or very poor (see Figure 12). Respondents pointed out that UK companies are increasingly willing to engage with their investors even where they may not agree with the views expressed. This degree of responsiveness was sometimes felt to be more pronounced compared to investee companies internationally.

“Most UK companies are very receptive to engagement and dialogue, access is some of the best around the world.”

“UK companies are very used to engaging with shareholders, generally making the process straightforward. It does, however, as for most engagement, take time to influence change.”

“Companies generally meet our expectations during our engagement, particularly in respect of the discussions over strategy and performance against that. Of course, there are occasions where companies exceed our expectations or disappoint us regarding their responses to our questions but in the main the quality is fine if not anything exceptional.”
It is, however, worth noting that some respondents were keen to stress that this categorisation reflects an estimate and pointed out that the quality of engagement can vary across different issues within the same company.

Even with these broad estimates, almost two thirds (64%) reported that the quality of the engagement had not changed compared to the previous year (broadly consistent with previous results). 29% said it was a little better and 7% said a little worse.

The overall experience of their engagement with UK companies has had an effect on asset managers, with over 80% reporting that it had led to better investment decisions, and for 30% considerably so. Over half of asset managers brought about some changes in the nature of the dialogue they had with investee companies. The majority of respondents did not change their approach to stewardship and the broader engagement process suggesting a degree of conviction in how asset managers go about their stewardship activities (see Figure 13).

Respondents also indicated that any lessons learnt from one engagement are internalised and implemented in the next one thus creating a positive feedback loop increasing standards throughout.

“We continue to fine tune our stewardship approach. We are trying to be more pragmatic and take greater ownership of the process, placing more emphasis on how context may lead to inappropriate recommendations from governance research providers.”

82% of asset managers reported that engagement led to better investment decisions.

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To provide concrete examples demonstrating how stewardship works in practice, we invited members to outline how they engaged with specific companies, including the objective they sought to achieve, their engagement process, the outcome and how it was connected to any voting decisions. Members were encouraged to provide examples of both successful and unsuccessful engagements.

In total, we received details of 28 successful and 17 unsuccessful engagements with over 30 individual companies. Examples of companies that respondents engaged with included Aviva, Burberry, Capita, GKN, Rio Tinto, Royal Dutch Shell, Weir Group, World Pay and many others. Notably, three respondents covered Shell and two covered each of Aviva, GKN, and Rio Tinto. Unsurprisingly, there was a wide range of engagement objectives not only across companies but sometimes even across respondents engaging with the same company.

The majority of case studies (11) involved engagement on remuneration, followed by eight cases where engagement was around specific directors and six cases that had an environmental related objective. Other case studies were on strategy, capital structure and M&A activity.

Some examples are outlined below and a broader sample can be found in Annex 2.

**Remuneration**

- “We have engaged for several years in a row with a health care company regarding its compensation plan. From our perspective, executive pay has not been appropriately aligned with the company’s performance. In our most recent engagement, we made several recommendations for how the board could be more transparent and accountable to the shareholders. After another year without observing significant, positive changes to the plan, we elected to vote against the Say on Pay. We found it necessary in this instance to use both our voice and our vote to express our dissatisfaction. We will continue to engage with the company and hold it accountable for failing to address shareholders’ ongoing concerns.”

**CASE STUDIES**

Examples of how the engagement approach may actually change following past experience can change included clearer definition of engagement objectives, identifying topics that are then discussed with other companies, being more pro-active on escalation, especially in light of poor progress and opting for collective engagement where multiple engagements haven’t been successful.
“We have engaged with [company] over a number of years regarding their disclosure and remuneration arrangements. We had received assurance in 2016 that there would be improvements, however, when it came to the AGM there had been no improvement, and this led us to take voting action on the report and accounts. We have since sold out of the shares.”

Board and governance

“Often success is due to a confluence of events and not just one firm or one engagement activity. We have been engaging with [company] about succession planning regarding the chairman who had also been a former CEO. Additionally, the Chairman’s fees were excessive indicating more influence with the day-to-day running of the business than was appropriate. We had previously voted against management proposals on these issues. We had some success in getting the board to think about succession planning and initiate a process for appointing a new Chairman given tenure of 20+years and a number of external roles. The publication of a draft UK Corporate Governance Code indicated that the tenure of the Chairman would be addressed in the Code which provided weight to our argument for change. Although we did not support the approach of an activist investor, in its attempts to remove the Chairman at a special meeting, it did focus the attention of the board that the issue needed to be addressed sooner rather than later. The Chairman agreed to step down at the next AGM. The firm plans to appoint a new Chairman following a proper appointment process. Of course, final success will only come when an appropriate candidate has been appointed, so we will continue to monitor the situation.”

Environment

“We have identified an initial set of 40 companies where [asset manager] has beneficial holdings and which have more than 30% of their business (by revenue) associated with thermal coal mining or coal power generation. While coal delivered 29% of total primary energy supply in 2012, it accounted for 44% of global CO2 emissions. Coal is nearly twice as emission intensive as gas on average, contributing significantly to the rapid consumption of the global carbon budget. These 40 companies have formed the basis of well-resourced and focused initial engagement over the past two years. Where we consider companies are not making sufficient progress towards the engagement goals, we will withdraw our capital. This is intended to add additional focus to the engagement. We will divest highly carbon-intensive fossil fuel companies where we consider they are not making sufficient progress towards the engagement goals set. This decision will not be taken lightly and only where we believe that divestment is a balanced and proportionate response. To date we’ve had 53 in-depth conversations with companies with significant exposure to coal. Where we don’t see sufficient movement we are prepared to divest (i.e. unsuccessful engagement) …”

Social

“Our workforce – living wage engagement objective was to determine steps taken by company to balance employee pay and manage retention in sector where workforce mobility remains high. The outcome was that the company raised basic wage of 700 workers as part of retention plans. … The company were facing high turnover and had not committed to pay the living wage. This was subsequently changed, which should benefit both employees and the company in the longer term, both at UK and International operations.”
As discussed in Section 1, voting is an essential component and inseparable part of stewardship. Generally, voting is viewed as coming after the engagement activity and in some ways it does represent the culmination of the dialogue up until the point of the AGM. However, voting happens at specific times in the year while engagement is ongoing and often stretches well beyond a calendar year so it will inevitably occur both before and after a vote has taken place.

Where a vote is cast against or is abstained, it signals that the shareholder (in this case, the asset manager) has strong views on a subject on which an agreement with the company could not be reached, at least not before the AGM. Shareholder ‘revolts’ are sometimes viewed as an indication that investors are fulfilling their stewardship obligations but seen in the context of the engagement activity preceding the vote, they would rather imply a significant dissent or breakdown in the discussions between boards and shareholders.

IA members exercise their voting rights worldwide. All respondents to the survey vote shares in the UK and the vast majority (at least 85%) do so in the rest of Europe, North America, Asia and Emerging Markets (Figure 14).

Looking at voting by topic in regards to UK investee companies, it seems that the highest levels of dissent amongst asset managers in the year to 30 June 2018, related to environmental and social issues with respondents reporting that on average they voted against 50% and 44% of the relevant resolutions respectively. However, this will be on a small sample of companies, as not many companies will have a vote on an environmental or social issue. It will often be a requisitioned resolution, from a group of shareholders that are seeking for other shareholders to vote against the board. The highest levels of voting with company management were for resolutions that related to directors and capital structure. Notably, asset managers on average voted against 17% of remuneration resolutions across UK companies and 20% against anti-takeover measures (Figure 15).

Where voting against or abstaining from voting, the Stewardship Code outlines as best practice to inform the company that the asset manager intends to vote against the Board and the reasons for the vote in advance. Over one third of asset managers inform management before of after voting in all cases, 60% inform companies sometimes while only 6% never inform the company of how they voted (Figure 16).
STOCK-LENDING

When it comes to lending stocks, the lender gives up the voting rights attached to the lent shares. Therefore, where asset managers practice stock-lending, there are significant implications for the effectiveness of their stewardship activities, as they can’t exercise the corresponding voting rights.

Over half of respondents (59%) reported that they do not engage in stock-lending. Of the 41% that do, the majority has indicated that they recall stock to regain control of their voting rights at least for voting in contentious situations or votes. Only 6% of asset managers lend stock and do not recall it to exercise their voting rights (Table 3).

<table>
<thead>
<tr>
<th>TABLE 3: DO YOU RECALL STOCK THAT IS ON LOAN IN ORDER TO REGAIN CONTROL OF THE VOTING RIGHTS?</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of respondents</td>
</tr>
<tr>
<td>Yes, for all resolutions</td>
</tr>
<tr>
<td>Yes, for contentious resolutions</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Don’t know</td>
</tr>
<tr>
<td>N/A – do not lend stock</td>
</tr>
</tbody>
</table>

GENDER DIVERSITY

Section 2 showed that more than half of asset managers had engaged with UK companies on gender diversity in the year ended 30 June 2018. In addition to that, 42% of respondents reported that they had made a voting decision based on gender diversity. Where this was the case, it tended to be for less than 20 UK companies (Figure 17).

Asset managers will engage with a Board to understand how they are often seeking to improve their gender diversity before considering it a voting issue. Usually, it is only after a period of time and when the asset manager considers that progress has not been made that they will vote against a company based on their lack of gender diversity.

<table>
<thead>
<tr>
<th>FIGURE 17: VOTING DECISIONS BASED ON GENDER DIVERSITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of respondents</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>Less than 20</td>
</tr>
<tr>
<td>Between 20 and 100</td>
</tr>
<tr>
<td>More than 100</td>
</tr>
</tbody>
</table>

42% OF ASSET MANAGERS MADE A VOTING DECISION BASED ON GENDER DIVERSITY
4 REPORTING

Reporting of stewardship activities, i.e. both engagement and voting, adds an important element of accountability as well as transparency. Asset managers are accountable to their clients in regards to how their money is managed and the wider public to explain what stewardship entails and the important role they fulfil in holding companies to account.

The frequency and content of reports to clients are largely determined by the client themselves. Particularly for institutional clients, the mandate will include a bespoke arrangement between the asset owner and the asset manager. For example, some institutional clients may require quarterly reporting of stewardship activities and others annual. Some may ask for a detailed voting and engagement record while others may request a summary report involving number of companies the asset manager has engaged with or covering specific case studies.

IA members have reported that most commonly they report on a quarterly basis to both institutional (segregated mandates) and retail clients (funds). A higher percentage of respondents do not report for their funds – 15% compared to 8% that do not report for mandates (Figure 18). Given the diverse nature of client reporting, summary statistics in this space can only serve as an indication of general practice.

Public disclosure needs to be considered separately for engagement and voting as the nature of the activity differs significantly. Engagement involves sometimes sensitive discussions between asset managers and companies that are largely private, something that does not apply for voting. Voting decisions can be quite sensitive particularly where they involve contentious issues but they do not have the same potential to damage the relationship with an investee company as disclosing the content of an engagement meeting. Accordingly we see that 85% of asset managers disclose their voting records either as a full list or as a summary while 57% disclose records of their engagement activities (Figure 19).

**FIGURE 18: FREQUENCY OF REPORTING TO CLIENTS ON STEWARDSHIP**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Segregated mandates</th>
<th>Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>Quarterly</td>
<td>22%</td>
<td>52%</td>
</tr>
<tr>
<td>Twice a year</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Annually</td>
<td>15%</td>
<td>27%</td>
</tr>
<tr>
<td>Do not report</td>
<td>9%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**FIGURE 19: PUBLIC DISCLOSURE OF STEWARDSHIP ACTIVITIES IN RELATION TO UK HOLDINGS**

- **Voting records**
  - Yes, all votes: 63% of respondents
  - Yes, as a summary: 22% of respondents
  - No: 15% of respondents

- **Engagement activities**
  - Yes: 57% of respondents
  - No: 43% of respondents
Respondents cited issues over confidentiality and trust as the most important factor to consider when deciding whether to publicly disclose records of their engagement with investee companies.

“We are concerned that naming the companies and proving details of our engagements can undermine confidentiality and trust that we need to have positive and constructive engagements with our investee companies. For these reasons, we are reluctant to disclose more than overall statistical information in our public disclosures. However, we are willing to provide a lot more detail on specific company engagements in our disclosures to clients that will not be placed in the public domain.”

“We treat our investment stewardship approach as an ongoing conversation with companies about our governance priorities and where we’d like to like to encourage change to better align practices with long-term investors’ interests. In order to maintain the highest level of respect for our portfolio companies and to cultivate an environment of trust and transparency during these conversations, we do not publicly share details of our company engagements. However, we do want clients, regulators, company boards and management to understand the engagement process and to have insight on what results in positive or negative outcomes. Therefore, as part of our semi-annual and annual updates we provide anonymous case studies describing company engagements.”

“Routine public disclosure of all engagement activity may inhibit the ability to have full and frank discussions with companies.”

Several respondents also pointed to the long-term nature of the dialogue with some companies which poses challenges when it comes to reporting within restricted timeframes. This adds to concerns around not damaging the relationship with the investee company by disclosing the content of the engagement if this hasn’t concluded by the time the report is published.

“By their very nature stewardship themes e.g. succession, strategic execution, M&A or adjusting for exceptional items are items that are longer term in nature and do not necessarily make for six month or even annual reporting. Furthermore, a lot of our engagement on the same issue covers multiple periods and it’s only credible to report at the end. We understand the focus for enhanced disclosure and we have adapted to meet that need. We are also considering some anonymous disclosures to bridge the sensitivity gap.”
“Engagement often takes place over a period of time and is as much about building a relationship of mutual trust and respect which then allows for full and frank discussion when we need to challenge a firm’s approach in specific areas or on specific issues. In our view it would be unhelpful to reveal details of discussions even after the fact. It is often difficult to say exactly when engagement has reached a final conclusion as often activity needs ongoing monitoring to ensure that what has been agreed actually occurs or changes may take some time to implement.”

“WE BELIEVE THAT IN CERTAIN INSTANCES DISCLOSING ONGOING ENGAGEMENT ACTIVITIES CAN JEOPARDISE THE ULTIMATE SUCCESS, AND DISCLOSING SENSITIVE DETAILS CAN JEOPARDISE THE SUCCESS OF FUTURE ENGAGEMENT ACTIVITIES MORE WIDELY.”

A further barrier in this area that is sometimes overlooked is the lack of a common set of terminology. This does not inhibit disclosure of case studies but it does imply that where summary statistics are produced – in itself a way to address concerns around disclosing sensitive information on specific companies – there will be lack of comparability across asset managers.

“IT WOULD BE USEFUL IF THERE WERE GENERAL STANDARDS OR A TAXONOMY ON HOW TO CATEGORISE ENGAGEMENT ACTIVITY IN ORDER TO HELP INVESTMENT FIRMS INFORM CLIENTS AND WIDER STAKEHOLDERS.”

Nevertheless, there were some asset managers who did not have any significant concerns around disclosure of their engagement records subject to having addressed areas that are considered more sensitive. In one case, public disclosure was viewed as another step of escalation.

“WE PREFER TO UNDERTAKE OUR CORPORATE GOVERNANCE DUTIES BEHIND CLOSED DOORS. WE ARE PREPARED TO MAKE PUBLIC DISCLOSURES OF ENGAGEMENT ACTIVITIES SHOULD PRIVATE DISCUSSIONS FAIL TO DELIVER THE OUTCOMES THAT WE ARE SEEKING.”
Where engagement activity is publicly disclosed, it tends to be in the form of a summary report that provides some statistics on the number and type of engagements, followed by a breakdown of engagements by market and sector, and very commonly accompanied by some case studies. The latter will usually include information around the objective of the engagement, the process and the outcome but companies are not always named given the concerns around trust discussed above. Some asset managers follow a slightly different approach by publishing a list of the investee companies they have engaged with and a separate sample of case studies on a mostly anonymised basis.

“We produce an annual report that outlines our overall activity. This includes the number of engagements (both private and collaborative), a breakdown of our voting activity by topic, and examples of private engagement, collaborative engagement, ESG integration and voting. For the engagements the companies are not named but the country and sector is identified. We show the objective of the engagement, the scope and process and the outcome.”

“We report publicly on total company engagement on a broad range of topics categorised under environmental, social and governance. All company names are disclosed and they included one-to-one meetings, joint investor meetings, conferences, teleconferences, written correspondence and collaborative engagements. We also include case studies on specific companies to help facilitate an understanding of our process.”

Importantly, although it is not unusual to have standalone reports with summary statistics or detailed records of voting activity, it is quite rare for reports on engagement activity to not include information on voting. This reflects the connection between engagement and voting discussed in Section 3, highlighting that public reporting is on stewardship altogether and that it is more meaningful to see voting in the context of the engagement that has preceded it.

A key change in public disclosure of stewardship activities is the introduction of the Shareholder Rights Directive II (SRD II) in 2019 that aims to promote shareholder engagement and increase transparency. This will apply to institutional investors and asset managers and will require them to disclose their shareholder engagement policy describing how they monitor and conduct dialogues with investee companies, how they exercise voting rights, how they cooperate with other shareholders and how they manage potential conflicts of interest. Additionally, SRD II will require that institutional investors and asset managers publish on an annual basis how this engagement policy has been implemented and how they have cast votes at general meetings.

“I see Directive 2017/828, Article 3g “Engagement policy”}
## Annex 1:
### Survey Respondents

<table>
<thead>
<tr>
<th>Aberdeen Standard Investments</th>
<th>Lindsell Train Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberforth Partners LLP</td>
<td>Liontrust Fund Partners LLP</td>
</tr>
<tr>
<td>AllianceBernstein Limited</td>
<td>Longview Partners</td>
</tr>
<tr>
<td>Allianz Global Investors</td>
<td>Loomis, Sayles &amp; Company, LP</td>
</tr>
<tr>
<td>Ardevora Asset Management LLP</td>
<td>M&amp;G Investments</td>
</tr>
<tr>
<td>Artemis Investment Management LLP</td>
<td>Majedie Asset Management</td>
</tr>
<tr>
<td>Aviva Investors Global Services Limited</td>
<td>Martin Currie Investment Management</td>
</tr>
<tr>
<td>AXA IM</td>
<td>Mirabaud Asset Management Limited</td>
</tr>
<tr>
<td>BAE Systems Pension Funds Investment Management Limited</td>
<td>Morgan Stanley Investment Management</td>
</tr>
<tr>
<td>Baillie Gifford</td>
<td>Newton Investment Management</td>
</tr>
<tr>
<td>BlackRock</td>
<td>Nomura Asset Management</td>
</tr>
<tr>
<td>BP IM</td>
<td>Old Mutual Global investors</td>
</tr>
<tr>
<td>Brewin Dolphin</td>
<td>Polar Capital LLP</td>
</tr>
<tr>
<td>Capital Group</td>
<td>Premier Fund Managers Ltd</td>
</tr>
<tr>
<td>Columbia Threadneedle Investments</td>
<td>Pyrford International Ltd</td>
</tr>
<tr>
<td>Evenlode Investments</td>
<td>Royal London Asset Management</td>
</tr>
<tr>
<td>Fidelity International</td>
<td>Sarasin &amp; Partners</td>
</tr>
<tr>
<td>First State Investments</td>
<td>Schroders Investment Management Ltd</td>
</tr>
<tr>
<td>GAM investments</td>
<td>Scottish Widows</td>
</tr>
<tr>
<td>Goldman Sachs Asset Management</td>
<td>Slater Investments</td>
</tr>
<tr>
<td>Hermes Investment Management</td>
<td>St. James’s Place Wealth Management</td>
</tr>
<tr>
<td>HSBC Global Asset Management</td>
<td>SVM Asset Management</td>
</tr>
<tr>
<td>Impax Asset Management</td>
<td>T. Rowe Price Associates</td>
</tr>
<tr>
<td>Investec Asset Management</td>
<td>UBS Asset Management</td>
</tr>
<tr>
<td>Janus Henderson Investors</td>
<td>USS Investment Management</td>
</tr>
<tr>
<td>JPMorgan Asset Management</td>
<td>Vanguard Asset Management Ltd</td>
</tr>
<tr>
<td>Jupiter Asset Management</td>
<td>Veritas Asset Management LLP</td>
</tr>
<tr>
<td>Kames Capital</td>
<td>Walter Scott</td>
</tr>
<tr>
<td>Lazard Asset Management Limited</td>
<td>Woodford Investment Management Ltd</td>
</tr>
<tr>
<td>LGIM</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 2:
SAMPLE OF CASE STUDIES

Remuneration

• “We had extensively engaged with [company] over the year on remuneration as we had voted against in previous years. We felt there needed to be more alignment with shareholders. We felt they needed to incorporate TSR into their LTIP and ensure that management shareholdings were more aligned. We were pleased that they incorporated a large part of their LTIP to TSR and included post retirement shareholding requirements to their policy. We supported management.”

• “We have had productive engagements for a number of years with a Dutch energy company. The topics have included oversight of long-term strategy and key risks, and these have given us helpful context when evaluating shareholder proposals. Recently, we had a focused discussion with the remuneration committee chair about changes to the company’s compensation plan, including amended performance measures and an increase in base salary. We emphasized our expectation that pay and relative performance should be closely aligned to support long-term value creation. We thanked the company for its proactive communication on this topic and its transparency about the board’s process for approaching changes to executive pay. We will continue to engage with the company as appropriate.”

• “The objective was changes to remuneration structure. The outcome was no changes and a vote against remuneration was cast at 2018 AGM. … The company had received a significant vote against its remuneration proposals at the 2017 AGM. We engaged with the company to understand what subsequent actions would be taken to alleviate shareholder concerns. Despite the engagement the company did not make appropriate changes to the scheme ahead of the 2018 AGM and subsequently we voted against the remuneration proposals.”

• “We have engaged with [company] over a number of years regarding their disclosure and remuneration arrangements. We had received assurance in 2016 that there would be improvements, however, when it came to the AGM there had been no improvement, and this led us to take voting action on the report and accounts. We have since sold out of the shares.”

Board and governance

• “We engaged with the Chairman and Senior Independent Director of a long-term holding. The purpose of our engagement was to gain insight into how well the board was equipped to monitor, assess and evaluate the potential threat to the company’s long-term competitive advantage posed by technological change. We focused on board skills, training and refreshment, below-board changes, the monitoring, assessment and mitigation of relevant risks and shared our thoughts on how other investee companies are approaching similar challenge. The outcome was a productive discussion, the gaining of helpful insights and a widening and strengthening of our relationship with the board. It was a successful engagement because we were well-prepared following discussion with our investment managers and constructive in our approach. We considered and supported subsequent board changes.”

• “The Chair of the audit committee had been the chair of the audit committee in Carillion, we therefore questioned his suitability to the role given the unfortunate circumstances. Mr Dougal withdrew from the board prior to the AGM as a result of a number of shareholders raising their concerns on this matter and we were therefore able to support the re-election of the board.”

• “We engaged over a period of several months with board members of a company operating in a competitive market. This was an evolving situation, initially involving misconduct allegations but then progressing to a series of board changes, profit warnings and legal actions against a new, aggressive competitor. We had access for engagement purposes to the board and its advisors. Engagement by email, phone and one-to-one meetings took place. Investment managers and governance specialists were involved. The outcome was unsuccessful because it transpired that we had not been given accurate responses to our questions. This is a good example of the limitations of engagement: even when we engage appropriately and ask the right questions we may not get to the bottom of what’s really going on.”
Capital structure

- “One notable engagement we had was regarding the approach to Cumulative Irredeemable Preference Shares in a UK insurance group. The company proposed to cancel these shares at par value which resulted in a sharp fall in the value of the shares. We clearly laid out our concerns to the company in a letter and also then engaged with the company one-on-one. Clearly we were not the only investors engaging on this issue at the time, but quite quickly the company responded to these concerns and announced that it was no longer seeking to take any action on the shares.”

- “In February 2018, [company] proposed raising capital by issuing new shares of up to 25% of share capital to fund acquisitions. Already highly leveraged and cheap versus its peers, the team analyst believed that it would be unlikely that [company] could allocate capital to earnings accretive or high-return acquisition. We recommended to the company that it first achieved an investment grade rating, communicate a dividend policy to shareholders, and only then discuss mergers and acquisition with the market. The analyst developed an engagement plan with the ESG team, based on a clear engagement objective to ensure the capital raising was withdrawn. This included a call with the CFO and a letter to the CEO. These early engagement actions unfortunately resulted in an unfavourable response from management. Our adapted engagement plan then included the following actions: We contacted other shareholders to understand their view of the potential capital raising. Together with [asset manager] and [asset manager], we sent a collaborative engagement letter to the CEO and Chairman. The analyst attended [company’s] investor day and asked challenging, focused strategy questions in the public forum. The questions were then followed by a one-on-one meeting with the CEO. After considerable advocacy effort and communication, the company withdrew the capital raising proposal.”

M&A activity

- “We engaged with both companies regarding a merger. In our view, forming a scaled business through the combination of [the two companies] could increase institutional investor interest in the sector, which ought to bring longer-term economic benefits too. Creating a scaled business with a higher profile could bring competitive benefits over time, as it will be able to shine a brighter light on the attractive commercial opportunities that are emanating from British universities all the time. After ongoing engagement with both companies, the merger was announced [in] 2017.”

Environment

- “The company’s Strategy Group has decided, on the back of our engagement to continue to be a CDP respondent and aim to stay as a constituent of the FTSE4Good, but focusing further on the UN Sustainability Development Goals (SDGs) and expanding disclosures in their Annual Report and sharing sustainability initiatives that occur within the businesses. [The] company has also engaged their environmental consultants, CarbonClear, to prepare a paper to inform the Board about: emerging practice following the Paris Agreement and Science Based Targets; the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD); and an update on the forthcoming revision of the CDP investor questionnaire to align with the TCFD.”

- “Where the initial engagement does not lead to an appropriate outcome, we may choose to adopt a stronger stance by using escalation tools at our disposal. After our first round of engagement came to an end, our activity has shown that while some companies are excelling in meeting the challenge posed by climate change, others are failing to do the bare minimum. A number did not respond to our requests for any engagement; of those that did, some have only shown superficial signs of improvement, if any at all. Therefore, we followed up on the engagement framework through voting, ...."