

FTSE 350 Chair

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Dear Chair,

I am writing on behalf of Investment Association (IA) members who invest on behalf of millions of savers and institutional investors. Our members seek to deliver long-term outcomes for these clients and are committed to supporting UK Plc as long-term stewards of British companies.

Emergency initiatives put in place to manage the COVID-19 pandemic are creating unprecedented challenges for our society as a whole. How we all act in the weeks and months to come will make a material difference to the wellbeing of our fellow citizens. As custodians of long-term capital, we favour companies that can demonstrate they are well run and take a long-term view of how they treat their employees, communities, suppliers, pension savers and customers. Our industry's role is to cut through economic uncertainty and market volatility, to work with and support good businesses that produce sustainable long-term value for savers and investors. Our members are not here to take short-term decisions or to capitalise on companies or people in distress.

In order to express our support to the companies in which we invest during these challenging times, IA members have asked me to outline their views on the following areas:

- **Engagement and communication:** Management teams and boards are under significant pressure and will face many challenges in the months ahead. Shareholders will aim to ease this pressure by allowing management teams and their boards to focus on the most significant issues for their business. To help us do this, we ask that companies maintain as open a dialogue as possible with their shareholders and other stakeholders over the coming months. We support firms who place their primary focus on maintaining a business that is ultimately sustainable over the long-term rather than prioritising short-term financial returns.
- **Financial Reporting:** IA members support the FCA call for companies and auditors to take the necessary time to prepare and audit their preliminary results, report and accounts. Companies should use the additional 2 months flexibility, if needed.



- **AGMs:** IA members have committed to focus on the most material issues to UK plc during this AGM season. We welcome the new Governance Institute guidance setting out how companies can hold their AGMs or GMs under the Stay at Home measures and seek the required shareholder approvals. We encourage companies to consider how to effectively engage with their retail and institutional shareholders in lieu of the normal AGM meeting.
- **Dividends:** The payment of a dividend is a decision for the board. IA members support the FRC guidance stating that firms should consider the position of the company at the time a dividend is paid, not just when it is declared. Shareholders agree that companies should be considering the suitability and sustainability of dividend payments in light of the current uncertainties. Companies' approach to paying a dividend should include ensuring employees and suppliers can be paid.

Dividends are an important income stream for pension funds and charities, as well as ordinary savers and pensioners, which at this time more than ever, provide an important income for these savers leading to benefits to the economy. Whilst IA members expect companies to take a prudent approach to current and future dividend payments, carefully assessing their ability to withstand financial stress, shareholders would be concerned if companies unnecessarily reduced or rebased the dividend level. Shareholders would expect companies who do decide to suspend, to restart the dividend payments as soon as it is prudent to do so. Ultimately, shareholders will expect companies to be transparent about their approach to dividends, particularly, if they are seeking additional capital.

- **Executive pay:** The IA Principles of Remuneration set out executive pay should be linked to company performance and take account of the shareholder experience, not just financial performance. If companies are cancelling dividend payments or making changes to their workforce pay, IA members will support Boards and Remuneration Committees that demonstrate how this should be reflected on their approach to executive pay.
- **Long term capital raising:** A number of companies are likely to need additional capital from their shareholders in the coming weeks and months. IA members believe the Pre-Emption Group guidelines should be respected. A number of capital raising options are available to companies, from rights issues to placings and/or open offers. We will continue to work with regulators, lawyers and other stakeholders to consider ways to shorten the timetables, allowing companies to raise the capital they need more efficiently.

In exceptional circumstances a cashbox may be the only approach suitable for a company. We support the recent Pre-emption Group statement allowing companies additional flexibility under their guidelines on a case-by-case basis, for a limited time period. Shareholders would expect management to consider their views and not just be led by the views of its advisory banks. Shareholders would also expect companies to offer the placing to existing long-term shareholders, in the first instance. The decision to use cashboxes will be scrutinised in the usual way by shareholders at the time of the next AGM.

Many difficult decisions will have to be made over the coming weeks and months. IA members will be taking a long-term view and in turn supporting management teams and boards who make the necessary decisions to help sustain the business over the long term to the benefit of its employees, its suppliers, the communities it serves and ultimately, British savers.



Yours sincerely,

Andrew Ninian
Director, Stewardship and Corporate Governance