

THE
INVESTMENT
ASSOCIATION

# STEWARDSHIP REPORT 2022

Investment Association Services Limited (trading as Institutional Voting Information Service)

April 2023



# Contents

Foreword	3
Principle 1 - Signatories' purpose, strategy and culture enable them to promote effective stewardship.	4
Principle 2 – Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.	23
Principle 3 - Signatories identify and manage conflicts of interest and put the best interests of clients first.	33
Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	37
Principle 5 - Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.	42
Principle 6 - Signatories review their policies and assure their processes.	44



# Foreword

I am pleased to introduce the 2022 Stewardship Report for the Investment Association's (IA) Institutional Voting Information Service (IVIS). This sets out how IVIS has applied the FRC's Stewardship Code for Service Providers for the period 1 January 2022 to 31 December 2022.

For IA members, as significant investors in UK listed companies, stewardship has always been important, but with increasing regulatory and client expectations on their stewardship activities and ESG integration, it is vital they demonstrate how they are delivering on their stewardship objectives and good outcomes for clients and wider society. The last year has seen this focus increase; with the FCA's proposals for Sustainability Disclosure Requirements (SDR) and fund labelling, the implementation of requirements on pension funds to set out their approach to stewardship and continued discussion on expression of wish.

In this Stewardship Report we set out how IVIS, the IA's voting research service, helps our members to deliver on their stewardship objectives. IVIS has always focussed on helping subscribers to make thoughtful and informed voting or engagement decisions rather than directing to a specific outcome, allowing investors to take account of the company's circumstances and explanations.

In this report, we continue to focus on the issues which IA members have highlighted as important to them as long-term investors in UK listed companies, such as diversity of boards and senior leadership teams, reporting on the impact of climate change on investee companies, the impact of the Russian invasion of Ukraine and ensuring executive remuneration is aligned with the shareholder and stakeholder experience. We have provided an overview of the approach which IVIS has taken and demonstrate the progress made in 2022.

However, the IA's approach to stewardship is much wider than IVIS. In 2022, the IA published guidance on how fixed income stewardship could be improved, setting out what bondholders need from issuers to improve stewardship, but also setting out the approach the industry should take to improve stewardship when managing fixed income assets. The IA also published a joint report with the Pensions and Lifetime Savings Association setting out how stewardship and long-term perspectives could be better incorporated into the relationships between investment managers and asset owners.

This Stewardship Report was approved by the IA Board at its April 2023 meeting. I would welcome feedback on our approach and reporting on stewardship.

Chris Cummings

**Chief Executive,  
The Investment Association**

# Principle 1 - Signatories' purpose, strategy and culture enable them to promote effective stewardship.

## About IVIS

IVIS is a subscription service, which was developed in 1993 to provide corporate governance and voting research for investment managers. IVIS helps subscribers make an informed voting decision, it does not provide directed voting advice but highlights issues or concerns that subscribers should be aware of prior to voting. This helps to promote good stewardship, as it requires subscribers to make their own stewardship decisions on engagement and voting, taking account of their views and knowledge of individual circumstances of the company. IVIS also helps uphold the IA guidelines and Shareholder Priorities that IA members have identified as important issues for them as long-term investors in UK listed companies. IVIS is the main way that the IA assesses if UK listed companies are responding to these investor stewardship expectations.

IVIS provides subscribers with full access to all IVIS reports, alerts when an IVIS report is published, a weekly email summarising recently published reports and access to the IVIS database through the IVIS search functionality.

IVIS monitors and assesses FTSE All-Share companies and the 50 largest FTSE Fledgling companies against the UK Corporate Governance Code, the IA Guidelines as well as other industry guidelines such as the Pre-emption Group Guidelines. IVIS does not conduct analysis on any other listed or non-listed companies, asset classes or geographies.

For each company annual general meeting, IVIS prepares a report which has three distinct sections, the Proxy Report, the Corporate Governance Report (the CG Report) and the Environmental, Social & Governance Report (the ESG Report). The Proxy Report replicates the meeting agenda and concisely identifies areas of concern or other issues shareholders should be aware of prior to voting. The CG Report analyses the company's governance structure highlighting the board and committee structure, compliance with the UK Corporate Governance Code as well as other shareholder expectations on diversity, board effectiveness, succession planning, workforce engagement and audit and accounting issues such as Audit Committee and Auditor judgements. The ESG Report monitors compliance with the IA Long Term Reporting Guidance (which includes guidelines on human capital; productivity; capital management and ESG disclosures) and the company's approach to TCFD reporting.

**Proxy Report (AMBER)**

**Company Details**

FTSE Sector:	INDUSTRIAL METALS & MINING	Meeting Date:	08-04-2022
FTSE Rank:	5	Proxy Date:	08-04-2022
Register:	COMPUTERSHARE INVESTOR SERVICES	Venue:	LONDON
Secretary:	STEE ALLEN	Meeting Time:	11:00 AM
Contact No:	020 7781 2000		

**Key Issues**

- (I) Approval of Remuneration Report (AMBER)
- (II) Approval of Climate Action Plan (Blue Top)

**Colour Top Synopsis**

Approval of Remuneration Report (AMBER): Shareholders will have to be satisfied that the 5% downwards discretion applied to the total STIP payment and an equivalent adjustment to the 2020 revised Bonus Deferral Awards (BDA) held by former Executive Committee members is a sufficient response to the report the Company published in February 2022, regarding cases of bullying, racism, and sexual harassment at the Company.

**Resolutions**

Resolutions	Note
1 To receive and adopt the report and accounts	
2 To approve the Remuneration Report for UK law purposes	Note 1
3 To approve the Remuneration Report for Australian law purposes	Note 1
4 To elect Dominic Barton BEM (Chair)	
5 To elect Peter Cunningham (Chief Financial Officer)	
6 To elect Ben Wyatt (Non-Executive)	
7 To elect Megan Clark (Non-Executive, R)	Note 2
8 To elect Simon Henry (Non-Executive, A)	
9 To elect Sam Ladlaw (Senior Independent Director, R)	
10 To elect Simon McKeon (Non-Executive, A, R)	
11 To elect Jennifer Nazou (Non-Executive, R)	
12 To elect Jakob Stausholm (Chief Executive)	
13 To re-elect Nigme Woods (Non-Executive, R)	
14 To approve the re-appointment of KPMG LLP as auditors	
15 To authorise the Audit Committee to be the remuneration of the auditors	
16 To authorise the payment of political donations and to incur political expenditure	Note 3
17 To approve the Climate Action Plan	Note 4
18 To approve an authority to elect shares under S551 CA2006	

**Corporate Governance Report (BLUE)**

**Board Composition**

Name	Position	A	R	N	Appointed	*MED Status	Note
Dominic Barton	Chair	M	-	M	2022		Note 2
Jakob Stausholm	Chief Executive	-	-	-	2016 (2021)		
Peter Cunningham	Chief Financial Officer	-	-	-	2021		
Sam Ladlaw	Senior Independent Director	C	M	M	2017 (2019)	YES	Note 1
Megan Clark	Non-Executive	-	M	M	2014	YES	Note 1
Simon Henry	Non-Executive	C	-	M	2017	YES	Note 1
Simon McKeon	Non-Executive	M	M	M	2019	YES	Notes 1 and 2
Jennifer Nazou	Non-Executive	-	M	M	2020	YES	
Nigme Woods	Non-Executive	-	M	M	2020	YES	
Ben Wyatt	Non-Executive	-	L	M	2021	YES	Note 1

C: Committee Chairperson, M: Member of Committee  
 \*MED Status refers to whether they meet the parameters of independence set out in the UK Corporate Governance Code  
 The biographies of the Board Members are available from the Company's website: <http://www.rtiointo.com/aboutus/management-board-3502.aspx>

**Board Changes**

Peter Cunningham was promoted to the Board as Chief Financial Officer on 17 June 2021.  
 Ben Wyatt was appointed to the Board on 5 September 2021.  
 Hinda Ghazal, Non-Executive, will retire from the Board at the 2022 AGM.  
 Simon Thompson, Chair, will retire from the Board of the Rio Tinto Limited AGM on 5 May 2022. He will be replaced by Dominic Barton who will be appointed to the Board on 4 April 2022.

**Note 1 - Other Directorships Held by Directors**

Director	UK plc	International listing	Private company
Sam Ladlaw			1: Neptune Energy Group Holdings Ltd*
Megan Clark		1: CSL Ltd	
Simon Henry	1: Harbour Energy plc	1: PetroChina Company Ltd	

**ESG Report (BLUE)**

**Productivity**

- 1 Does the Company explain the main drivers of productivity within its business, describing how these link to its long-term strategy? **X**
- 2 Does the Company regularly assess the level of productivity in its business, and disclose the results of these assessments? **✓**
- 3 Does the Company disclose the key investments it has made to improve productivity? **✓**

**Capital Allocation**

- 4 Does the Company explain how it makes capital allocation decisions, in particular the criteria used? **✓**
- 5 Does the Company disclose the recent major capital allocation decisions, including how these relate to the achievement of its long-term strategy? **✓**
- 6 Does the Company make material quantitative disclosures on capital allocation? **X**

**Human Capital and Culture**

- 7 Does the Company make human capital disclosures, including on total headcount, annual turnover, investment in training and skills and professional development, and employee engagement score? **✓**
- 8 Does the Company explain its approach to human capital management, including the measures taken to increase productivity within the workforce? **✓**
- 9 Does the Board explain its approach to developing and monitoring a positive workplace culture? **✓**

**ESG Risks and Opportunities**

- 10 Does the Company describe the role of the Board in identifying and managing the Company's material ESG risks and opportunities? **✓**
- 11 Does the Company provide KPI's on the management of material ESG risks and describe verification procedures? **✓**
- 12 Does the Remuneration Committee take account of the handling of ESG risks and opportunities when setting performance targets? **✓**

**Climate-related Risks**

- 13 Does the Company describe its governance of climate related risks and opportunities? **✓**
- 14 Has the Company identified a Director or Committee responsible for overseeing the Company's approach to climate related risks? **✓**
- 15 Does the Company describe the actual or potential impacts of climate related risks and how it will assess and manage them? **✓**
- 16 Does the Company explain how its strategy takes into account the impact of climate-related risks and opportunities? **✓**
- 17 Does the Company make specific reference to the impact of climate-related risks and opportunities on its approach to capital management? **✓**
- 18 Does the Company describe climate change related metrics and targets? **✓**

IVIS does not provide voting recommendations. Instead, it highlights specific matters for subscribers to consider prior to voting through a colour coding system. Each report is colour coded (or topped), with Red indicating a breach of best practice and not conforming to our Guidelines, Amber raises awareness of particular elements of the report which require an investor judgement, and Blue indicating no areas of major concern. IVIS also uses a Green Top in cases when an issue has been resolved by the company after they have issued their Annual Report or Notice of Meeting. The issue which is driving the colour top is clearly outlined in the 'Key Issues' and 'Colour Top Synopsis' sections of the IVIS Report. IVIS also summarises the main issues in the STATUS bar of the Proxy report and, if appropriate, the conclusion. This approach means that subscribers use the reports to inform their own voting decisions and encourages thoughtful and informed engagement with companies by IVIS subscribers on the issues identified.

In addition, as a part of the IA, IVIS receives requests from UK listed companies to engage with their Board on various governance and other ESG matters. The vast majority of engagement requests relate to executive remuneration. This process allows us to provide feedback to the companies and, if the company asks us to do so, seek feedback from IA members who are also consulted. This process allows both companies and shareholders to identify areas of potential concern early and resolve them before any final decisions are made or the final documentation is produced and published. The IVIS consultation service is not a paid for service.

## Ownership of Investment Association Limited (trading as Institutional Voting Information Service (IVIS))

IVIS is the trading name for the voting research services of Investment Association Services Limited, a wholly owned subsidiary of The Investment Association (the IA). Therefore, the governance, culture, and approach to stewardship of IVIS is linked to the IA approach to stewardship and its strategy to improve stewardship in the UK.

The IA is the trade association that represents UK asset managers. The IA champions UK investment management, supporting British savers, investors, and businesses. Our 250 members manage over £10 trillion of assets on behalf of clients in the UK and around the world. The investment management industry

supports 122,000 jobs across the UK. The IA’s mission is “Championing investment for the benefit it brings to investors and the wider economy, in the UK and across the world.”

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs. IA members own on behalf of their clients one third of UK listed companies. More than a third of total assets managed in the UK are for overseas customers, making us a leading global centre for the industry.

The core pillars of the IA’s strategy are:

- Shaping regulatory reform
- Modernising capital markets
- Enhancing sustainability and responsible investment
- Promoting innovation
- Enabling cross border business
- Fostering diversity, equity, and inclusion.

The IA’s top priorities for 2023 are:

- **Champion a competitive policy environment** - Position the industry with Government as an enabler of economic growth and key policy outcomes - use this position to address waning competitiveness of UK - and deliver a more competitive, pro-industry market that is attractive to firms to retain and build business.
- **Influence and shape regulatory change** - Influence and shape regulatory change programmes including the Future Regulatory Framework, Consumer Duty, Value Assessments and FSCS, while holding authorities to account on cost and implementation.
- **Ensure sustainable investing works** - Influence the design and the implementation of UK sustainable finance rules (SDR, UK Taxonomy; classification and labels) seeking to ensure international coordination and consistency.

## The IA’s values

In early 2021, the IA developed a new set of values, which were established based on input by all employees through a series of workshops. The workshops led to the development of a values statement for the IA:

“At the IA, we are committed to serving our members, embracing new ideas and striving for excellence. We are inclusive, considerate and act with integrity in all we do.”

The values are embedded into our recruitment processes and all employees are expected to live up to them. Adherence to the values is incorporated into the performance appraisal process – see Principle 2 for further details. There is a “thanks” system which allows individuals to recognise colleagues who have

demonstrated the IA values in their work. From 2022, questions on how the organisation upholds these values were included in the staff survey.

## Stewardship and Corporate Governance

Stewardship and responsible investment has been one of the key pillars of the IA's strategy since 2016. The IA has a dedicated Stewardship and Corporate Governance team, which along with other IA teams delivers on this aim. The team has a broad remit, helping to work on a number of the IA's other strategic pillars:

- **Shaping regulatory change**- such as engaging with UK government and regulators on the corporate governance, audit, corporate reporting, and the stewardship and listing regime in the UK;
- **Fostering diversity, equity and inclusion** - within investee companies by promoting initiatives and actions to improve diversity of the Boards and senior leadership teams in UK listed companies and highlighting to subscribers those companies that have not met investor expectations on diversity;
- **Enhancing sustainability and responsible investment** - through helping members to make informed voting and stewardship decisions via IVIS's research and improving the reputation of the industry by improving stewardship outcomes;
- **Modernising capital markets** – ensuring that investors get the information they need to make informed investment and stewardship decisions and promoting a listing environment that allows companies to list and operate in the UK.

The Director, Stewardship, Risk and Tax; is a member of the IA Executive Committee and responsible to the IA Board for delivering on the IA work on stewardship. Members see our role in stewardship as using the aggregate voice of our members to help deliver better run companies for members to invest in, by focusing on material risks to the long-term value of the company. We also help to improve stewardship practices in the industry and promote the right regulatory environment for Stewardship and Corporate Governance.

The Stewardship and Corporate Governance team has recently been expanded to incorporate the IA's Risk and Tax Unit. This took effect in February 2023. For the period under review, the Stewardship and Corporate Governance team was accountable to the IA's Stewardship Committee. The Stewardship Committee's 3-year strategy focuses on the following areas:

- **Regulatory environment for stewardship and corporate governance:** To promote a coherent regulatory environment for stewardship and corporate governance that supports sustainable value creation in investee companies and drives alignment of expectations across the investment chain.
- **Improving stewardship practices:** To promote and facilitate the highest standards of stewardship practice by supporting member firms to integrate stewardship and ESG considerations in the investment process, to meet emerging regulatory requirements and to engage effectively with client demand.
- **Creating a sustainable economy:** To help create a sustainable economic recovery which prioritises long-term value creation for clients alongside benefits for the economy, society, and the environment. To demonstrate the impact that investors can have through their role as stewards and the important role of stakeholder voice in a sustainable recovery.
- **Corporate reporting and audit:** To promote coherent reporting standards and practices that support sustainable value in investee companies and assist members to make informed investment decisions and meet their reporting requirements. To promote high quality, user-driven, audits.

IVIS contributes to the delivery of this strategy, particularly improving stewardship practices by helping members to integrate stewardship into their investment processes. This is achieved through IVIS

highlighting material issues through the IVIS reports, upholding member guidelines on a sustainable economic recovery and promoting better reporting by UK listed companies.

## IVIS' purpose and culture

Since IVIS' inception, the guiding purpose has been to aid subscribers in making informed voting and engagement decisions. The IA and IVIS are not shareholders in the companies analysed so do not believe that it is our role to provide directed voting advice. Instead, IVIS seeks to uphold IA guidelines and highlight the issues or concerns which IVIS believe subscribers should consider prior to voting. IVIS reports and the IA guidance are regularly reviewed by the Stewardship Committee, including its sub-committees to ensure that they are meeting member needs and providing high quality, independent research.

IVIS promotes a culture of dialogue rather than confrontation. IVIS does not provide voting recommendations. The reports seek to give members sufficient information - including the company explanations - so that subscribers can make an informed voting decision. Members can also identify those companies meeting shareholder expectations. IVIS aims to be market-led, ensuring that it is highlighting the issues which our subscribers and IA members consider important to long-term value creation. While IVIS reports are based on publicly available documents, IVIS will contact companies when there is a need for clarification or further information. Company explanations are included in the reports to ensure they are fair and balanced, and members have all relevant information before voting.

Thanks to this approach, we believe the companies are willing to engage with us and have a genuine dialogue aimed at improving their approach to best practice and addressing shareholder concerns. For example, if a company does not meet all the provisions of the UK Corporate Governance Code and has decided to explain against a provision, IVIS will provide a summary of the company's explanation. This means that shareholders can understand the approach taken by the company and reasons for it. This in turn promotes effective stewardship. It also helps to support and promote the comply and explain approach to corporate governance in the UK.

This is an example of how IVIS set out AstraZeneca's explanation on the tenure of their Chair:

### **Note 3 - UK Corporate Governance Code Compliance**

The Company refers to Leif Johansson having served on the Board for more than nine years. The Chairman of the Board has noted that he has served as a Director of the Company for ten years by April 2022. The Chairman has stated that last year, the Board asked him to seek re-election at the 2021 AGM to lead the Board's oversight of completion of the acquisition of Alexion. Again this year, the Board believes it would be in the best interests of shareholders for the Chairman to serve for one further year, to facilitate succession planning and the transition to a new Chair, and has asked Mr Johansson to seek re-election at the AGM. It is the Chairman's intention to retire from the Board at the end of the AGM in 2023.

The Board has stated that the search for a Chair of the Board as part of routine succession planning is proceeding well, led by the Senior Independent Director. The Board has identified a shortlist of candidates, and meetings between them and Board members started to take place in the fourth quarter of 2021.

The culture of dialogue is also applied internally. The IVIS team, being relatively small, can have regular discussions on corporate governance matters or environmental and social issues. The team keep up to date with relevant developments. When publishing the IVIS report, the colour top decision is normally discussed between the analyst and the Head of IVIS and in some more complex cases, or when there is no consensus, with the Director, Stewardship, Risk and Tax or the entire team (usually only in unprecedented cases). On



rare occasions, when the team is unable to arrive at a consistent view, IVIS may seek further clarification from the company or reach out to our members to get the investor view on the specific matter. The culture of dialogue has been a feature of IVIS from its formation and is linked to the IA's values of inclusivity and consideration. The views of team members, irrespective of the level of experience are valued and questions raised are answered. Team members are welcomed and encouraged to share their opinion or challenge the Head of IVIS' judgement if they disagree with it. All analysts regularly challenge the Head of IVIS or the Director, Stewardship, Risk and Tax, on a wide range of matters such as the colour top assessment on remuneration issues, the assessment of disclosures surrounding diversity, succession planning, audit or TCFD disclosures. We regularly discuss specific remuneration or other company specific issues at our weekly team meeting to ensure that everyone can provide their perspective on the way that IVIS implements the colour top approach.

As noted under Principle 2, we have a range of experience in the IVIS team and part of the team culture is to share knowledge and experiences within the team. New joiners are encouraged to learn and develop through contact and knowledge transfer with their more experienced colleagues. The sharing of knowledge and a learning culture helps the junior member to increase their understanding, but also benefits the more experienced analysts solidify their knowledge, forcing them to consider how best to explain complex issues such as remuneration structures to colleagues. This approach, which has been applied for several years, is compatible with the IA value of striving for excellence.

### **IVIS culture under a hybrid working system**

As mentioned in the last year's IVIS Stewardship Report, following the easing of restrictions in July 2021, the IA focussed on implementing a hybrid working system, where staff were expected to adopt a 50:50 model. Over the course of a month, employees have to spend at least 50% of the time in the office. In 2022, the 50:50 model has been embedded into the IA Values and the importance of the IVIS team regularly attending the office at the same time as the rest of the team has been regularly communicated. Several incentives have been introduced to encourage the return to office, such as all staff Town Halls, Teatime Talks, monthly birthday celebrations or social gatherings, and wellbeing events. The team log their intended attendance in an app, which allows the rest of the team and organisation to know when their colleagues are attending the office. This helps to coordinate the team coming together. During 2022, the Stewardship and Corporate Governance Team introduced a team day, when it was expected that team members would ordinarily come to the office, so that we could hold an in-person team meeting and work together. In 2022, the IA has retained a Fresh Air Friday system that was introduced during the pandemic and allows employees to get away from their screens and desk on the last Friday afternoon of every month.

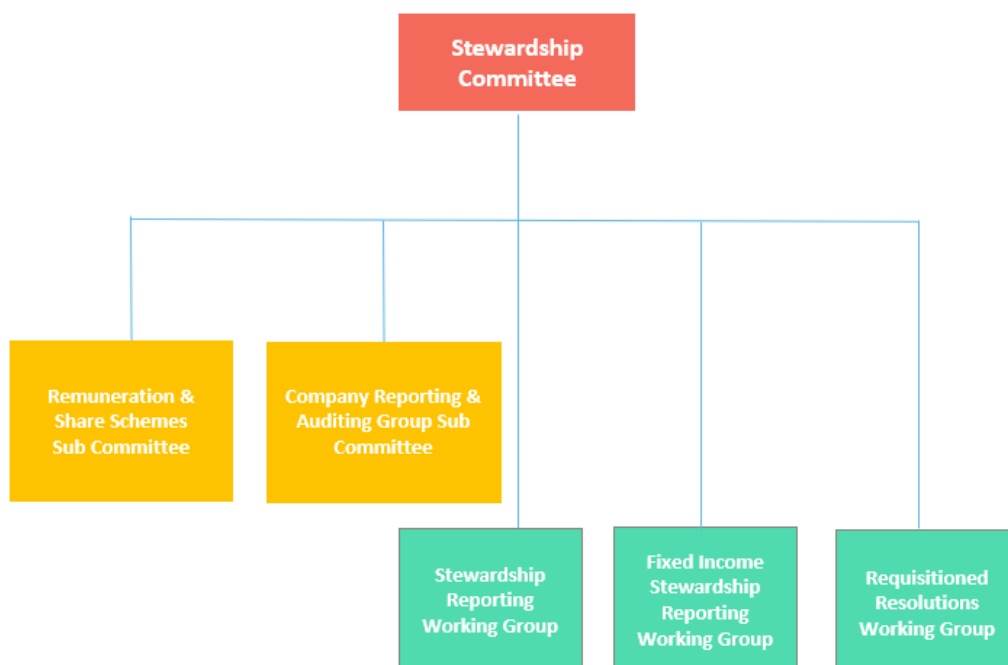
Throughout the year, the IA has run several staff surveys to monitor the overall wellbeing of its employees. The feedback from these questionnaires, as well as from other staff engagements, informed the IA's actions aimed at encouraging employees to return to office and to improve levels of wellbeing and satisfaction.

### **IVIS' role in upholding IA guidance**

The IA has a range of guidance or expectations of UK listed companies. These represent the aggregate views of IA members on issues which will impact on the long-term value of investee companies and which if managed appropriately by companies will have a positive impact on society, the environment and wider economy. The IA has a range of guidance, such as:

- [Principles of Remuneration](#) - expectations on the structure and outcomes of executive remuneration.
- [Shareholder Priorities](#) – For the last 4 years, the IA has produced Shareholder Priorities which set out member expectations on four issues which IA members consider have a direct link to long term value. These are climate change, audit quality, diversity, and stakeholder voice.
- [Share Capital Management Guidelines](#) – focussing on the share capital authorities that companies regularly submit for shareholder approval.
- [Long Term Reporting Guidance](#) – expectations on narrative reporting on a range of issues from productivity, capital management, human capital, and material ESG risks.
- [Other guidance](#) on issues including audit tendering, viability statements, virtual-only AGMs and quarterly reporting.

These guidelines and priorities are set by the IA in conjunction with three IA committees: The Stewardship Committee, the Remuneration and Share Schemes Committee and the Corporate Reporting and Auditing Group. These committees are populated with individuals from a range of IA member firms, of differing size, business model and ownership models. The individuals are usually senior stewardship, sustainability, and corporate governance professionals but can also include portfolio managers or analysts. The Stewardship Committee reports into the IA Board and has two sub-committees (the Remuneration and Share Schemes Committee and Corporate Reporting and Auditing Group). The chairs of these sub-committees are deputy chairs of the Stewardship Committee, to ensure that there is clear alignment and reporting into the Stewardship Committee from the sub-committees.



Once these guidelines are approved by the IA committees, the Stewardship and Corporate Governance Team including the IVIS team develop the approach which IVIS will take on these issues. These IVIS approaches are then discussed and approved by the relevant Committees. The updated guidelines are published on both the IVIS, and the IA websites. They are sent to company secretaries of FTSE 350

companies explaining the main changes and any relevant areas of concern or focus. We also communicate these guidelines to advisors such as remuneration consultants, lawyers, other corporate governance or proxy solicitation companies and regulators and government departments.

## **IVIS reflecting member views and evolving positions**

IVIS team members regularly attend meetings of the Stewardship and Remuneration and Share Schemes committees where they can contribute to the discussions and gain understanding of member views and policies. After every committee meeting a team meeting is held where the contents of the committee discussions and feedback from members are shared with the team members who did not attend.

IVIS' participation in the committee meetings also allows members to better understand the IVIS approach and question or challenge it. This allows IVIS to react swiftly and adjust our approach to best suit members' stewardship and voting needs and as a result to promote effective stewardship.

During the AGM season, IVIS analysts see the majority of FTSE listed companies approaches to governance, remuneration and other reporting issues. With this knowledge base they can identify trends and potential new concerns. In addition, throughout the year, trends and potential concerns are identified through the remuneration consultation process. These are then discussed with members, depending on their severity, either at the Committee meetings or on an ad-hoc basis where necessary (for example where a new area of concern is identified which is not covered by the guidelines). Depending on their significance, matters that are discussed at the Committee may inform the IVIS colour-top approach and may be reflected in the updated Guidelines.

After each AGM season IVIS and the wider IA policy team will review the findings from the AGM season. This allows IVIS to identify issues or concerns which are emerging. The IA share these findings with the Committees to get their perspectives, allowing members to identify other issues which may have been a concern to them. A decision can then be taken if the IA guidelines need to be updated or whether the approach IVIS takes to analysing companies needs to change. IVIS also provides data and observations which help to measure the effectiveness of the IA campaigns, such as alignment of executive pensions with the wider workforce, diversity, disclosure of climate risks. These then feed into policy and guideline reviews for the following year.

## **IVIS delivering stewardship outcomes**

The way that IVIS is used to help deliver IA members' and IVIS clients' stewardship priorities has been most acutely demonstrated in the last couple of years, when the Stewardship Committee asked to focus on several specific issues. The Committee identified issues which were of particular importance to shareholders and long-term value creation and utilised IVIS to assist in achieving the desired stewardship outcomes. These issues would also allow shareholders to demonstrate that they could change company behaviours through their stewardship activities. The following case studies demonstrate the contribution of IVIS to effective stewardship by investors: diversity, stakeholder experience through the pandemic and Russian invasion of Ukraine and executive pensions. The Stewardship Committee considered these issues as being impactful on long-term value for listed companies and identified significant appetite for change across the IA membership. Importantly, there was significant member support for the use of a colour top approach to those companies not responding to member expectations.

These case studies demonstrate the long-term approach which the IA and IVIS take towards these issues and that IVIS' approach and expectations evolve over time, initially signalling to companies the changes that IVIS and IA members want to see from listed companies, which then evolve into colour top approaches. The expectations on listed companies and severity of the colour top increase over time, which gives companies time to respond, but still allows IVIS to highlight those companies that are not responding to member expectations.

## Case Study - Gender Diversity

### Summary

The latest FTSE Women Leaders Review Report demonstrates the continued progress being made on women on boards, with the 40% target for FTSE 350 companies achieved ahead of the 2025 target. But there are still a significant number of individual companies, that need to make considerable progress to achieve this target by 2025. IVIS continues to highlight through a red top, those companies that are not on track to achieve the target. This allows investors to focus their engagement and voting activities on the companies that need to make the greatest change.

### Background

Investors view diversity as a core and critical business issue that boards and leadership teams must address to secure their long-term success. Diversity is a key ingredient of effective governance. There is a growing body of research indicating that more diverse boards make better long-term decisions, leading to more productive and sustainable businesses.

The IA and our members have supported the FTSE Women Leaders Review and its predecessor review the Hampton Alexander Review, which are the UK Government-backed reviews to improve gender diversity in FTSE 350 companies. In April 2018, the IA wrote with the Hampton Alexander Review to thirty-five FTSE 350 companies with low female representation at leadership levels, calling for change. In 2019, the IA and Hampton Alexander Review wrote again to sixty-nine FTSE 350 companies, outlining concerns about the lack of gender diversity on their board. The letter, which was sent to companies who had no women or just one woman on their board, asked companies to outline what action they were taking to make progress and ensure they met the Hampton-Alexander targets of 33% of women on their board and leadership team by 2020. These letters were coupled with a new IVIS approach to highlighting the lack of gender diversity on Boards.

From 2019, IVIS red topped any FTSE 350 company if there were none or only one woman on the board (except for instances where the 33% Hampton Alexander target had been met), IVIS amber topped FTSE 350 companies where there was more than one woman, but less than 25% of the board were women and Amber topped FTSE Small Cap companies where less than 25% of the board were women. In the following years, IVIS gradually increased the severity of our approach, with 2021 resulting in raising the female representation requirement to above 30% and setting a requirement of above 25% female representation on the Executive Committee and their direct reports. FTSE 350 companies not meeting these requirements received a red top while an amber top was applied to the FTSE Small Cap Companies.

## New Targets from the FTSE Women Leaders Review

In 2022, the successor review to the Hampton Alexander Review was announced, the FTSE Women Leaders Review, set out new recommendations, including:

- the voluntary target for FTSE 350 Boards and for leadership teams is increased to a minimum of 40% women's representation by the end of 2025,
- FTSE 350 companies to have at least one woman in the Chair, Senior Independent Director role on the Board and/or one woman in the Chief Executive Officer or Finance Director role by the end of 2025,
- extending the scope of the FTSE Women Leaders Review beyond FTSE 350 companies to include the largest 50 private companies in the UK by sales.

In 2022, the IA supported these targets and the FCA consultation to introduce a comply or explain target into the Listing Rules and require consistent disclosures on diversity from all listed companies. Given the lack of progress in the FTSE Small Cap and the FCA requirements for all listed companies to meet the comply or explain target of 40% of the board being female, we introduced a red top for FTSE Small Cap Companies to encourage progress in a segment of the market which previously has not been subject to such targets. It is a reflection that IA members wish to see progress from these companies. As a result, for the 2022 AGM season, IVIS took the following approach:

Red top FTSE 350 companies where women represented:

- 33.0% or less of the Board
- 28.0% or less of the Executive Committee and their direct reports

Red top FTSE Small Cap companies where women represented:

- 25.0% or less of the Board
- 25.0% or less of the Executive Committee

## Outcomes for 2022

In 2022, IVIS red topped 106 FTSE 350 companies for either their board or senior leadership diversity (2021: 106), of those 35 (2021: 81) were red topped for board diversity and 59 (2021: 48) for senior leadership diversity. This means that 12 (2021: 23) companies received a red top for both Board and Senior leadership diversity. In the FTSE Small Cap and Fledgling, IVIS colour topped 111 (2021: 150) companies for gender diversity concerns. Of these, 69 companies were colour topped for board diversity, 24 for Executive Committee Diversity and 18 for both board and Executive Committee diversity.

It is important to view these numbers in the context of the change in the approach between 2021 and 2022. Whilst for the FTSE 350, the minimum requirements have simply been increased, for FTSE SmallCap and Fledgling, the board diversity threshold has been reduced but the colour top escalated. The senior management diversity measurement method has been changed from Executive Committee and their direct reports to Executive Committee for the FTSE Small Cap to be aligned with the FCA reporting requirement.

As published by FTSE Women Leaders, female representation on Boards increased in 2022 across the FTSE 100 from 39.1% to 40.5%, FTSE 250 from 36.8% to 40.1%, and FTSE 350 from 37.6% to 40.2%.

Representation of women in senior leadership (executive committee and their direct reports) has risen from 32.5% to 34.3% last year for FTSE 100 companies and from 30.7% to 32.8% last year for FTSE 250. For comparison, in June 2017, the representation of women in senior leadership in FTSE 350 was 24.5%. The IVIS approach has helped members to identify the companies where engagement or voting against the Chair might be required if insufficient progress has been made to improve diversity and is part of a set of tools at their disposal to help influence change.

The IA has noted that investors are generally pleased with the progress that companies have made in trying to tackle the lack of diversity at the board level. However, they are equally interested in whether the drive for diversity is reflected across the wider workforce, and will increasingly be examining Gender Pay Gap data, and any voluntary reporting on the Ethnicity Pay Gap to ascertain this.

### Expectations for 2023

For 2023, IVIS will increase its existing diversity targets by 2% which is aligned with the ambition to hit the FTSE Women Leaders Women on Board targets by 2025:

Red top FTSE 350 companies where women represent:

- 35.0% or less of the Board
- 30.0% or less of the Executive Committee and their direct reports

Given the level of gender diversity on small cap boards, IVIS will maintain its approach to red topping FTSE Small Cap companies where women represent:

- 25.0% or less of the Board
- 25.0% or less of the Executive Committee

IVIS will also assess whether companies are meeting the new Listing Rule requirement for companies to disclose on a comply or explain basis whether one of the four senior positions on the Board (Chair, SID, CEO or Finance Director) is held by a female. At this stage, IVIS will not colour top on this issue.

## Case Study - Ethnic Diversity

### Summary

Companies continue to make progress on improving and disclosing the ethnic diversity of their boards. IVIS continues to highlight those FTSE 100 companies that have not achieve the Parker Review target of “one by ‘21” and those FTSE 250 companies that have not disclosed or provided a credible plan to achieve the one by 2024 target. IVIS will continue our approach in 2023 and will review the new recommendations from the Parker Review for future years.

### Background

Since the launch of the Parker Review, IA members have endorsed the call for the improved ethnic diversity on the Boards of investee companies. While they understood the challenges that collecting data on the ethnicity of their directors could pose, they called for improved disclosure that would allow them to understand how companies were progressing towards meeting the Parker Review target.

## Evolving expectations

In 2020, IVIS was asked by the IA members to include a question in its reports, whether there was a disclosure of the percentage of the Board coming from an ethnic minority background. Following the 2020 AGM season, the conclusion was that little progress was made. 11 companies had appointed directors from an ethnic minority background since the start of the Parker Review, while 37% of FTSE 100 companies did not have any ethnic minority representation on their boards. Generally, companies did not provide disclosures regarding the Board's ethnic diversity, with only 27% of the FTSE 100 companies providing such a disclosure.

Members emphasised the need for significant progress and called for companies to take urgent action to improve the ethnic diversity of their boards. As the lack of information on the ethnic diversity of boards prevented investors from holding companies to account on their progress. Investors wanted companies to communicate credible action plans to reach the Parker Review target.

Therefore, for 2021, IVIS was asked by its members to apply a stricter approach and to Amber top any FTSE 350 company that did not disclose either the ethnic diversity of their board or a credible action plan to achieve the Parker Review target. For 2022, the approach was escalated for FTSE 100 companies, with a red top for FTSE 100 companies that have not met the Parker Review target of one director from a minority ethnic group. The approach to the FTSE 250 companies remained unchanged and will remain unchanged for 2023.

## Outcomes for 2022

In 2022, IVIS red topped 4 FTSE 100 companies (2021: seven amber tops) for not meeting the Parker Review target. One of these companies has since de-listed. There was one amber top of a FTSE 100 Company, which did not meet the Parker Review target, but we felt there was a credible explanation as to why. In this particular case, the Company announced an appointment to the Board in January 2021, which was delayed due to ill health during the pandemic, and subsequently cancelled due to the individual no longer wishing to relocate. Given that the Company has taken reasonable steps to meet the Parker Review target and the unexpected turn of events, we thought an Amber Top would be the right approach to flag the circumstances.

With regard to the FTSE 250 companies, we have amber topped 58 companies (2021: 63) for not disclosing either the ethnic diversity of their board or a credible action plan to achieve the Parker Review target. As noted last year, the approach resulted in an increased engagement from companies on this matter and this continued in 2022. Based on the 2023 Parker Review Report, in December 2022, 96% (2021: 89%) of FTSE 100 companies had met the target and 67% (2021: 55%) of FTSE 250 companies had met the target for minority ethnic representation on their board.

## Approach for 2023

Given the progress achieved during the year, and the impending Parker Review target for FTSE 250 companies, IVIS will maintain the same approach in 2023. The IA and IVIS will consider the new recommendations of the Parker Review including for companies to set targets for the ethnic diversity of their Executive Committee and their direct reports ahead of the 2024 AGM season.

## Case Study – Alignment of pension contributions

### Summary

Following the change to the UK Corporate Governance Code to require the alignment of pension contributions between executives and all employees, the IA and our members sought for alignment by the end of 2022. We have seen great progress with the majority of companies aligning pension contributions for both new and existing executive directors. Investors continue to focus on those companies, where alignment of pension contributions has not been achieved.

### Background

Following the publication of the UK Corporate Governance Code in 2018, which stated that, “The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce”, IA members felt it was important to ensure that this provision of the new Code was appropriately and swiftly implemented by UK listed companies. IA members believed alignment of pension contributions is an important point of fairness but also helps to strengthen employee relations. In November 2018, the IA updated the Principles of Remuneration to state:

“The UK Corporate Governance Code states that pension contribution rates should be aligned with those available to the workforce. IA members consider this to be the rate which is given to the majority of the company’s workforce. Investors expect new executive directors or any director changing role to be appointed on this level of pension contribution. The contribution rates for incumbent executive directors should be reduced over time to the contribution rate available to the majority of the workforce, members expect this to be achieved as soon as possible. Shareholders do not expect that compensation will be awarded for this change.”

This was followed up in February 2019, when the IA outlined that IVIS would red top any company with a new remuneration policy that did not explicitly state that any new executive director appointed would have their pension contribution set in line with the majority of the workforce. In addition, we stated that IVIS would red top the remuneration report when a new executive director was appointed with a pension contribution that was above the level of the majority of the workforce. For existing executive directors receiving a pension contribution of 25% of salary or more, IVIS applied an amber top.

### Evolving expectations

In 2020, the IA requested companies to outline a credible action plan to reduce the incumbent directors’ pensions to the workforce level by the end of 2022 and IVIS red topped any company where the committee had not disclosed such a plan and executive directors received a pension contribution of 25% of salary or more. In 2021, this threshold was reduced to pension contributions of 15% of salary or more and in 2022, IVIS red topped any company where executive pension contributions are not aligned to the majority of the workforce rate or there was no credible action plan to align pension contributions for incumbent directors by the end of 2022.

### Outcomes from 2022

During 2022, IVIS red topped five companies in the FTSE 100 for the lack of alignment of pension contributions (2021: six companies). Of these companies, one was acquired and is now delisted, two have outlined a timetable to align pension contributions after the end of 2022 deadline. Two companies



expressed no intention to align executive pensions with the workforce rate. This shows that the continued focus, together with the stricter IVIS approach sends a powerful signal to companies on what investors want to achieve.

### Approach for 2023

As the 2022 deadline has now been reached, in 2023 IVIS will red top any company that has not yet aligned their executive pensions with the rate for the majority of the workforce.

## Benefit of IVIS to help deliver stewardship outcomes

These case studies are evidence of the way which IVIS is used to help drive stewardship outcomes and deliver change in company behaviours to meet IA member and IVIS subscriber stewardship objectives. The IA or IVIS cannot claim exclusive credit for the improvements in each of these areas, but we believe that our focus on these issues and highlighting them through our priorities and IVIS reports does lead to companies responding and improving their performance on these issues. Companies respond to member expectations which are part of public debate and members reinforce the issues through their own engagement and voting.

## How IVIS responds to the current market environment

### COVID related issues

Throughout 2022, the IA Covid-related remuneration guidance, introduced in 2020 and updated in 2021, remained in place. IVIS continued to highlight companies which received government support (such as under the Coronavirus Job Retention Scheme for furloughed employees), implemented large scale redundancies, cancelled dividends, raised additional capital from shareholders or made other changes to employee pay and bonuses. These factors were relevant for our review of director remuneration to ensure the executive's experience was commensurate with the experience of other stakeholders, particularly employees. We continued to red top companies which had paid bonuses and have not repaid the Government support, particularly furlough money. In September 2021, the Government announced that £1.3 billion of furlough money had been returned by companies. We understand from advisors and companies that investor expectations on executive remuneration for those companies that had taken furlough money had some impact on companies' decision to repay furlough money.

Other company responses, impacting their stakeholders were also taken into consideration, such as if the company raised additional capital from shareholders, benefited from tax relief such as the business rate relief or cancelled their dividend. IVIS also focussed on any discretion exercised by the Remuneration Committee to reflect the impact of the pandemic and the COVID response on stakeholders and company performance.

As the restrictions were lifted and companies could return to normal or regular trading, we did not have any engagements specifically to discuss the approach in relation to the pandemic (2021: 40). In 2022, IVIS red topped 18 (2021: 21) companies in FTSE All Share and its Fledgling coverage that paid bonuses to their executives despite not repaying government support. These companies were predominantly in the Leisure and Entertainment sectors and had been impacted by closures in 2021. The IA Covid remuneration-related guidance is no longer needed for 2023.

## Russian Invasion of Ukraine

Following the Russian invasion of Ukraine, the IA has worked with member companies to help them navigate the crisis and implement the sanctions imposed on Russia. It has liaised with the Government to inform of the industry's views on how the industry could play its part, protecting clients' interests and supporting the economy.

Following requests from remuneration consultants the IA set out some guidance to remuneration consultants on the grant size of LTIPs following share price falls and delaying of target setting for LTIPs by six months. The response to these questions were agreed and approved by IA members through the Stewardship Committee and Remuneration and Share Schemes Committee. We were able to give companies and their advisors a quick response to issues which companies were seeking to address as a result of the market uncertainty following the invasion of Ukraine.

In addition, IVIS was asked by members to identify the companies exposed to Russian or Ukrainian markets and to summarise the actions taken by them. This has been included in the IVIS reports in the introduction to the proxy report. For illustrative purposes, below is an example of a statement from the AVEVA IVIS report:

### **Company's response to the Russian Invasion of Ukraine**

The Company states that the war in Ukraine did not have a material impact on revenue in the financial year. For FY23, revenue will be impacted by the war in Ukraine and consequential sanctions on Russia as AVEVA has ceased new business in Russia. The Group continues to support existing non-sanctioned companies where there is no legal basis to terminate contracts. Russia is a relatively small market in the context of the Group, representing around 2% of revenue in FY22

The Company also notes that whilst revenue generated from industrial customers in Russia, Ukraine and Belarus does not meet the materiality threshold to be included as a principal risk over the next 12 to 18 months, there are specific risks captured by the Company's risk management process that are being closely monitored and mitigated as the crisis develops. Areas of potential impact are listed below:

- Impact to revenues from AVEVA's Russian entity of approximately 2% of Group revenue (assessed as immaterial to overall business over the next 12 months);
- Monitoring and complying with the evolving sanctions applied against Russia;
- Increased cyber security threats (AVEVA is part of the supply chain of some Russian oil and gas companies);
- The potential trapping, loss or devaluation of the Company's assets in Russia, including cash, trade debtors and contract assets (assessed as immaterial to the overall AVEVA Group);
- Exposure to customers who are reliant on a supply chain from Russia, and any subsequent impact to the Company's revenues from such customers;
- Any retaliatory sanctions imposed by the Russian government on western organisations such as AVEVA;
- Any potential sanctions imposed on other geographies where AVEVA materially derives revenues, should the crisis prolong and become more global; and
- Increased volatility in global oil and gas markets as a result of the crisis and the subsequently impact on AVEVA.

## Cost-of-Living Crisis, Inflation and the Stakeholder Experience

Given the impact of the invasion on the cost-of-living crisis, the IA included in its letter sent to Remuneration Committee Chairs in November 2022, a call to consider remuneration outcomes in the context of the economic uncertainty. We asked that remuneration committees sensitively balance the need to continue to incentivise executive performance and ensure the executive experience is commensurate with that of shareholders, employees, and those most impacted by the cost-of-living crisis, including vulnerable customers, suppliers and other major stakeholders.

The letter included expectation from the IA members that, considering the unusual external environment, companies show restraint on the increases to variable pay opportunity in their new Policy and where salary

increases are needed, IA members encourage Committees to consider increases below the rate of salary increases given to all employees.

Ahead of the 2023 AGM season, IVIS has sought views from members on its approach to pay increases as well as outcomes of the 2020 incentive grants, given that the majority of companies have made those grants at a heavily discounted price, whilst stating at the time that they would review the outcomes to judge whether there was any windfall gain. The IVIS reports for 2023, will include a section on how the company is responding to the cost-of-living crisis including the treatment of their key stakeholders such as employees, vulnerable customers and suppliers.

### Pre-Emption Group Statement of Principles

On 4 November 2022, the Pre-Emption Group published updated Statement of Principles and template resolutions which integrate the revised pre-emption regime recommended in the Secondary Capital Raising Review. Under the revised guidelines, a company may seek authority by special resolution to issue shares on a non-pre-emptive basis representing:

- no more than 10% of issued share capital in any one year, whether or not in connection with an acquisition or specified capital investment (with a further authority of no more than 2% to be used only for the purposes of making a follow-on offer (as described in paragraph 3 of Part 2B of the Principles); and
- no more than an additional 10% of issued share capital in connection with an acquisition or a specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding 12-month period and is disclosed in the announcement of the issue (with a further authority for no more than 2% to be used only for the purposes of making a follow-on offer).

Given that this was a significant change from the previous Statement of Principles (which capped disapplication at 10% of the issued share capital), the IA sought to update its Share Capital Management Guidelines. The IA consulted members of the Stewardship and Investment committees to ensure that its approach, based on continued alignment with the Pre-Emption Group Guidelines and red topping any authority in excess of the revised maxima, was appropriate and in line with members' expectations. To ensure that shareholders were protected, we confirmed that we would seek for companies to confirm that they would follow the shareholder protections set out in the Pre-emption Group Statement of Principles. The Share Capital Management Guidelines also outline a revised approach for investment companies, which historically have been awarded a greater flexibility and could seek up to 10% authority for general purposes. The acceptable threshold was reviewed from 10% to 20% of the issued share capital (whether the authority is sought under one or two resolutions). We have sought to introduce the new Share Capital Management Guidelines for the 2023 AGM season.

### Member and Company Engagement

IVIS and the IA are ideally positioned to assist the dialogue between members and companies. Whilst not wanting to interfere with the direct engagement between companies and their shareholders, the IVIS team can help members with the remuneration consultations which involves the preparation of remuneration summaries of the company's remuneration proposals. This approach is described in Approach to Remuneration Consultations below. However, company meetings are not limited to remuneration. Companies approach us to discuss wider corporate governance matters, such as board succession, diversity or ESG risks. Meetings are usually attended by representatives from IVIS and the Director, Stewardship, Risk

& Tax or Head of IVIS and this facilitates broader discussions, as appropriate, even if the discussion is originated on remuneration matters, this often leads to other material governance and ESG issues from diversity to succession planning or climate change reporting.

Depending on the nature and confidentiality of the company meetings, IVIS may brief our members on the topics discussed or seek their views, which may be shared with the company and inform our approach at further engagements or when producing the IVIS report. Member feedback to companies is provided on an anonymous basis. As such we believe IVIS can provide an additional and frank voice in the engagement process and thus serve to improve stewardship.

Individual IA members may also approach IVIS either to seek our view or raise concerns. These may relate to a particular company, market, an area of corporate governance or the contents of the IVIS report. This may have result in various actions, for example:

- Contacting the company for further explanations or a meeting.
- Raising a matter at the Committee meeting.
- Informal discussions with other members.
- Update of the IVIS report.

These actions result in an improved communication with companies and more accurate IVIS reports.

## Assessment of effectiveness and individual feedback

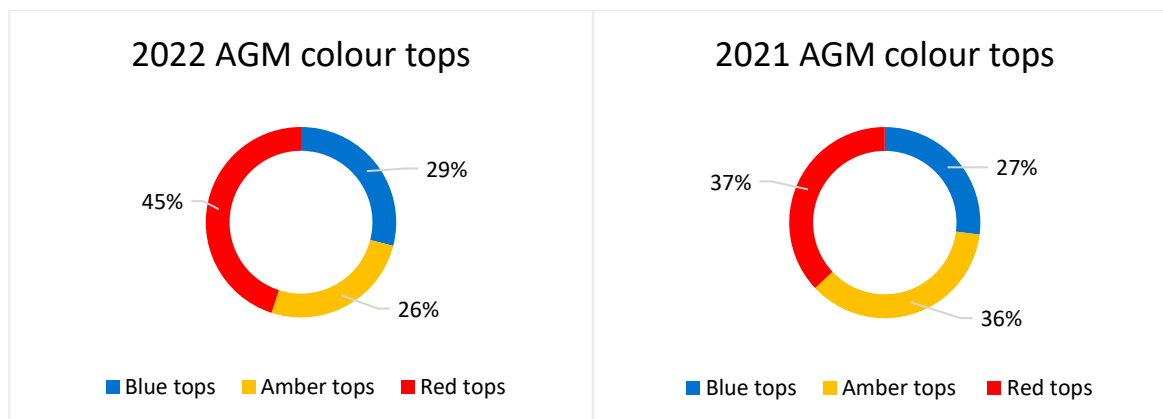
IVIS receives regular feedback through the Stewardship and Remuneration and Share Schemes Committees. This serves as an assessment of our effectiveness. Members can flag issues, identify priorities, and request specific approaches to help them in exercising their stewardship activities. Members have fed back to IVIS that it plays crucial role in supporting their work and promoting improved company disclosure and outcomes and our reports and remuneration consultations facilitate comprehensive engagement with a greater number of companies.

As set out above, the approaches to pensions and diversity, have led to significant changes to company behaviour. The IA has published [Shareholder Priorities for 2023](#), with the updated approach towards climate change, audit quality, stakeholder engagement and diversity. These Priorities are aimed to improve outcomes from companies and the quality of disclosure, so that shareholders are receiving the information they need from investee companies.

One area, we continue to monitor regarding the effectiveness of IVIS is the percentage of companies that receive a red, amber, or blue top reports. In recent years, IVIS has seen the number of red and amber tops increase, resulting in less companies receiving a blue top. This is mainly due to development of the specific positions on diversity, pension contributions, remuneration outcomes in the context of COVID and stakeholder experience (highlighted above) and the approach we take to amber topping reports where executives are receiving a significant increase to pay opportunity through variable pay, significant salary increases or if the company fails to meet our policy on post-employment shareholding guidelines.

In 2022, red tops accounted for 45% AGM reports (2021: 37%) and 6% of GM reports (2021: 13%). Amber tops accounted for 26% AGM reports (2021: 36%) and 10% of GM reports (2021: 14%). The increase in the

red topped AGM reports, and the similar reduction of the amber tops is driven by the more demanding approach regarding diversity, marked by the change of the colour top assessment of FTSE Small Cap companies that do not meet the gender diversity threshold (as outlined above, IVIS changed the approach to highlighting this from amber to red top).



Historically, the vast majority of the colour tops were applied to the proxy reports with historically around 10-12% of reports being red topped each year, but with an increased focus on diversity and climate change reporting, it is now an often case for a report receiving colour tops on each of the main three parts (Proxy, CG and ESG). For AGMs, the breakdown of the colour tops for each of the report part was as follows:

Report	2022			2021			2020		
	Blue	Amber	Red	Blue	Amber	Red	Blue	Amber	Red
Proxy	48%	32%	20%	46%	31%	23%	41%	42%	17%
CG	56%	10%	34%	51%	31%	18%	66%	26%	8%
ESG	92%	8%	N/A	91%	9%	N/A	100%	N/A	N/A

The breakdown of colour tops shows the significant shift between amber and red tops for the CG report between 2021 and 2022, with red tops increasing from 18% to 34% and amber tops reducing from 31% to 10%. Diversity-related red tops accounted for over 95% of red tops for the CG part of the IVIS report. This supports the above statement that the increase in red tops for 2022 was the result of the stricter approach towards diversity for FTSE Small Cap companies.

With regard to red tops for the proxy reports, 60% were based solely on remuneration-related issues, 31% were related solely to issues related to non-pre-emptive share issue authorities. The main drivers for red tops of the remuneration-related proposals were:

- Executive pensions not being aligned with the level available to the majority of the workforce (40% of remuneration-related red tops);
- Payment of bonuses without repaying help received from the government in relation to the Coronavirus Job Retention Scheme (23% of remuneration red tops);
- Pay structures not being in line with best practice (20% of remuneration red tops)

Other Red top issues related to matters such as retrospective change of performance measures, lack of disclosure as to how the pay outcomes were achieved or grant of incentive awards to Non-Executive Directors.

IVIS continues to understand the views of subscribers on our colour top approach to ensure that we are appropriately highlighting the severity of different issues on the appropriate colour top. At the current time, we consider that as members have asked for the various issues to be highlighted on a particular colour top, the current approach is still helpful to members, but we will continue to monitor if there is sufficient distinction and differentiation between them and enough companies receive a blue top. This is continuously kept under review. We believe that when colour tops are broken into sections of the Report, there is still a substantial proportion of blue and amber tops, with the red tops used to highlight the most significant concerns.

We have significant discussions with members when deciding what is the appropriate threshold for a red top on issues such as gender diversity. If we set the threshold too high, there will be a perceived safety in numbers and companies will not see the need to act. We strive to set the threshold at the level such that it is appropriately rare to require action by companies. This is the reason that we decided not to change the women on board threshold for a red top in the FTSE Small Cap for 2023, given the number of red tops issued for diversity in the FTSE Small Cap. We will keep this under review and continue to discuss with members to ensure that we continue to highlight the appropriate issues to allow them to make informed voting decisions.

# Principle 2 – Signatories’ governance, workforce, resources and incentives enable them to promote effective stewardship.

## Governance and Resources

The work of IVIS is overseen by the IA’s Director, Stewardship, Risk & Tax. The Director, Stewardship, Risk & Tax is accountable to the IA CEO and IA Board for the running of IVIS and specifically the judgements and approach which IVIS takes. Neither the IA CEO nor the IA Board are involved or consulted on individual companies or the resulting colour tops of an IVIS Report to avoid any perceived or actual conflicts of interests which may exist.

As outlined above, the IA Guidelines and IVIS approach are set by the IA Stewardship Committee, Remuneration and Share Schemes Committee and Corporate Reporting and Auditing Group which comprises of individuals from member firms responsible for stewardship, corporate governance or portfolio management. This leads to a market-based approach focussing on the issues which are important to members, as shareholders in UK Plc. The IA Board does not approve the IA guidance given the potential conflicts which exists with the CEOs of listed investment management companies sitting on the IA Board.

The IVIS team currently comprises eight members, including the Head of IVIS and Deputy Head of IVIS. Four of the eight person IVIS team are women, and the team is made up of individuals from a diverse range of nationalities and ethnic backgrounds. Diversity within the IA and the investment management industry is of particular importance to the IA. The IA is a signatory to the Women in Finance Charter, the Race at Work Charter and Change the Race Ratio to improve gender and ethnic diversity. The IA has set targets for improving gender diversity at the IA, voluntarily report our gender pay gap and will shortly publish our ethnicity pay gap and targets for improving ethnic diversity within our organisation. Investment 2020 is the IA’s industry careers service focuses on widening access to diverse talent including school and college leavers, as well as graduates. Last year, IVIS hired an Investment 2020 graduate as a trainee data analyst. This person is now a permanent team member developing in the role of trainee corporate governance analyst.

The IVIS team comprises a balance of experienced corporate governance analysts and recent graduates. The IVIS team has a range of qualifications and experiences from specific corporate governance qualifications to a wider range of other educational subjects. Two IVIS team members have worked in corporate governance at other service providers. When necessary, IVIS uses temporary staff for data input only and such support was provided by the Investment 2020 graduate, who, once the AGM season was over, was given opportunity to work with the wider team on other projects. They expressed interest in developing in the analyst role, received training and started drafting IVIS reports, under the mentorship of the Deputy Head of IVIS. This person is now a permanent team member. IVIS does not use temporary staff for full company analysis.

The IA has a graduate programme which allows graduates with analytical skills to develop experience. IVIS currently employs two recent graduate analysts on a permanent basis; previous graduate IVIS analysts have moved to other roles within the IA. This works for both the IA and the individual as we can hire quality individuals with analytical skills and the individuals can gain valuable experience necessary at the start of their careers, with a view to positions across the company and industry. Graduates who have left the IVIS team have taken on roles in stewardship policy at the IA, joined member firms to fulfil stewardship at an investment manager or taken up other policy roles within the IA. The grounding in IVIS has been a beneficial starting point on understanding governance, stewardship and developing their analytical skills.

IVIS has an induction and training process which ensures that new staff are provided with a detailed understanding of corporate governance, IVIS activities and each element of the IVIS report and particularly remuneration structures in the UK market. Whilst we apply a "learn by doing" principle, which is the main way to develop skills and experience as an IVIS analyst, new joiners receive basic training, combined with mentoring from the team. Depending on the experience of the new analyst, some steps of the training process may not be needed.

The full training process starts by providing an overview of the IVIS service and its purpose. We provide specific training sessions on Corporate Governance, ESG and Executive Remuneration. The practical training starts with new joiners preparing reports on Investment Trusts, which do not have Executive Directors or employees, and therefore require less knowledge. As they work through the reports, the team are at their disposal to help with any questions. Normally, the Head of IVIS or the Deputy Head of IVIS will be their main point of contact but they are also encouraged to ask their questions to other team members. We work in an open plan office environment, and it is easy to approach a colleague with a question. As is the case for all IVIS analysts, the new analysts receive feedback on their report and have to make their own corrections. In the case of new analysts, the feedback is discussed in detail so that they have a chance to understand the approach and ask questions. The complexity of the companies allocated to the new analysts will increase as they progress. New joiners will also participate in company and committee meetings with more experienced analysts and the Head of IVIS or Director, Stewardship, Risk and Tax.

Moreover, the IA has a Personal Development Programme process in place which gives staff members who wish to participate, the opportunity to discuss their professional development and career within the IA in a structured and documented way. During this process, staff meet with their line manager to identify and agree on a personal development plan, the training and development actions that follow, and an iterative ongoing review process. The IA has a training budget to fund external training or courses. IVIS analysts have been supported in their study for the Investment Management Certificate. During the year under review, one analyst completed their IMC and another started studying for it.

IVIS analysts also have access to the IA's external training which is offered to members, including member training courses and the online learning platform, which includes a wealth of industry-leading eLearning, covering a broad range of topics, including Governance, Risk & Compliance for Financial Services; Cyber Awareness & Resilience (approved by National Security Centre); Working in the 'New Normal'; Mental Health & Wellbeing; Workplace and Soft Skills. They can also participate in IA's conferences and seminars.

All members of the team receive regular updates on different aspects of corporate governance and related topics. The IVIS team regularly meets and discusses new development in the market or current issues relating to the work of IVIS. They are also kept up to date with member and market sentiment on issues. IVIS analysts can attend IA events, webinars or internal town halls with industry leaders, regulators and



politicians and other thought leaders. As mentioned in Principle 1 above, team members attend the meetings of the relevant IA Committees, which enable them to better understand members' views, receive feedback or discuss trends and concerns. IVIS team members may also attend external events which is also a useful way of expanding their knowledge and expertise. As experience grows, they are involved in more tasks such as involvement in remuneration consultation process and increased participation in company meetings.

The IA has a performance management system aimed at ensuring the right outcomes against individual objectives and the wider priorities of IVIS and the IA. The analysts' performance is measured based on the quality of their work, accuracy of the IVIS reports as well as using their knowledge to promote best practice and members goals when engaging with the companies or their advisors. Employees are assessed on their performance throughout the year. This included the assessment of experience, efficiency, and adherence to the IVIS processes. In previous years, where IVIS processes have not been followed, this has impacted on an analyst's appraisal rating. All IA employees were appraised against the IA values and employees are required to demonstrate how they live up to the IA's new values. Each element (performance and values) influences the overall rating, which determines the level of discretionary annual bonuses paid to individuals. When reviewing pay levels and promotion at the IA, account is taken of performance and values (as measured in the annual assessment), role, market and internal budgetary considerations. Furthermore, the end of year assessments forms an important input into setting goals for the year ahead, whether in the development of specific skills and knowledge through training or experience, or in focussing on better demonstrating adherence to any (or all) of the values.

IVIS uses its own bespoke technology for writing and storing company reports and to enable clients' various ways to search through the database. The system is website based and we continuously review how to evolve and improve the product. IVIS is currently working with its website developers to provide enhancements to its system and to create a basis for further implementation of new features for its clients. IVIS analysts receive specific training on the IVIS website.

We believe that our resources are sufficient to meet our clients' demands and to support good stewardship. This is based on the following facts:

- Our coverage is limited to FTSE All Share index plus the largest 50 companies in Fledgling index, meaning that each year we cover between 600 and 650 companies.
- The IVIS reports are designed to be concise – we analyse areas that our members have asked us to focus on.
- We do not provide voting recommendations and do not operate a voting platform.
- Some functions of our system are automated, reducing the need for repeated entry. We are currently working on further automation of some processes.

Given the nature of the work, with the condensed period requiring additional focus, during the AGM season the team is required to work extra time. This requirement is communicated to the candidates at the interview stage. Analysts will still be able to attend wellbeing initiatives to make sure they remain motivated and satisfied.

We believe that there is sufficient capacity to meet the needs with the existing team. However, in exceptional circumstances, such as illness, we have additional capacity with former IVIS analysts working at

the IA, including in the wider Stewardship Team. In 2022, there were no such exceptional circumstances. We keep former analysts up to speed with developments in IVIS and those individuals have a role in setting the shareholder expectations including the IVIS approach with members, so they are well versed in the areas which IVIS cover. In such instances, we introduced an enhanced checking process to ensure that the IVIS reports were of sufficient quality.

## Fees

The IA is a trade association. The Company's aim is to have a surplus for between two and six months of expenditure in reserves with a target of four months. IVIS is an additional subscription service aimed at helping members to deliver their stewardship goals. IVIS has a single fee structure which gives access to all our resources (IVIS reports, search engines, IVIS alerts and weekly emails). Alternatively, reports can be purchased on an individual basis by those not wishing to subscribe. We believe that the fees are appropriate given the resource and expenditure required to deliver those services, given the nature of the IA's business and business model.

## IVIS Processes

The following points set out our processes in the delivery of the IVIS reports. Our Guidelines can be found on the [IVIS website](#). These guidelines set our members' expectations of UK listed companies. The guidelines are subject to periodic review and discussion by the IA's Stewardship Committee, Remuneration and Share Schemes Committee and Corporate Reporting and Auditing Group to ensure they continue to represent IA member interests and current market best practice (see Principle 1). They cover a wide range of issues that are important to the alignment of the interests of investors and companies; including share capital management; pre-emption rights; ESG risks; climate-change risks, executive remuneration and corporate governance. The IA's Stewardship Committee also set positions or approaches which IVIS should follow for example the way that IVIS should 'colour top' companies.

## IVIS Reports for Shareholder Meetings

When companies in the IVIS coverage hold an Annual General Meeting (AGM) or a General Meeting (GM), IVIS produce an IVIS report for that meeting. IVIS analyses the proposals submitted for shareholder approval and, in case of AGMs, produces additional Corporate Governance and ESG reports. In each case IVIS considers the disclosures made by the company in any of its public documents including RNS disclosures, annual reports, and meeting documents such as the notice of meeting. IVIS considers these for consistency with previous year's disclosures and highlight relevant changes or areas of interest.

IVIS only prepares reports on companies listed in the UK and our analysis is based on UK corporate governance best practice. Our members expect all UK listed companies to follow UK best practice irrespective of their country of incorporation. IVIS notes that companies incorporated outside of the UK may have to depart from best practice due to local regulations applying to them. Where this is the case and where it is disclosed by the company, this is noted in the IVIS report.

In the process of preparing the IVIS report, the IVIS analysts scrutinise the proposals and structures presented to shareholders for approval and, where applicable, compare them against previous years' disclosures to see if there are any areas of concern which had been highlighted previously. Where resolved, this will also be highlighted alongside other positive developments (for example an improvement in disclosure). Significant levels of shareholder dissent at the last shareholder meeting and whether a

company was included in the [IA's Public Register](#) is also highlighted. When this is the case, a summary of the Company's response and update statements is included where this has been made publicly available. The IVIS Report has three sections, the Proxy Report, Corporate Governance Report and ESG report.

## Proxy Report

The proxy report includes an overview of financial performance of the company, focusing on the measures the company considers as its key performance indicators. While IVIS normally does not comment on the company's performance against these indicators, they are taken into consideration in the overall analysis. IVIS may comment on payments made to the directors in the context of the financial performance of the company.

IVIS reports focus on matters that IA members have asked IVIS to highlight. As such, IVIS usually provides no comment on routine proposals such as the re-election of a non-executive director who meets independence criteria of the UK Corporate Governance Code and there are no issues of accountability of decision making to be raised. However, if a director does not meet one of the independence criteria of the Code, this is highlighted in the report along with any company explanation.

A significant part of the IVIS proxy report focuses on analysing the company's approach to executive remuneration. We outline the company's remuneration policy and emoluments paid, and in the narrative section provide more detail on the remuneration structure, implementation of the policy for the year under review and any potential concerns or breaches of best practice. If IVIS has had engagement with the company during the year, for example when there was a remuneration consultation, this is reflected in the IVIS report together with a summary of member feedback.

The issue which is driving the colour top is clearly outlined in the 'Key Issues' and 'Colour Top Synopsis' section of the IVIS Report. IVIS also summarises the main issues in the STATUS bar of the report and, if appropriate, the conclusion.

At any time during the drafting stage, we might contact a company if further information or clarification is needed to complete the report or where discrepancies have been identified in the company's reports. Where a report has been prepared on a red top, a draft report is sent to the company before publication giving them one working day to provide a response, the company may provide factual corrections, further details or explanations on the highlighted issue or other matters.

## Corporate Governance Report

In terms of the Corporate Governance and ESG reports, companies are analysed against a standard set of questions which are agreed by our members. The Corporate Governance Report focuses on the following areas:

- **Board and Committee Composition** – we highlight the membership of the Board and Committees as well as any changes since the previous report. We highlight where any Non-Executive Director does not meet the independence criteria set out in the UK Corporate Governance Code.
- **Other directorships** - all other significant directorships held by directors as this may lead to conflicts of interest or concerns over the directors' time commitments.

- **Director attendance to board and committee meetings** – we note where a director has missed a significant proportion of Board or Committee meetings.
- **Compliance statement** - we disclose how the company assessed its compliance with the UK Corporate Governance Code as well as summarising a company’s explanations for deviations from the Code. We also note any areas in which IVIS has identified any divergence from key areas of the Code which has not been identified or explained by the company.
- **Board effectiveness and workforce engagement** - we highlight material disclosures provided by the company on board effectiveness, diversity, succession planning and the company’s approach to workforce engagement.
- **Accountability, audit and reporting** – we answer questions relating to internal controls, material risks, the viability statement, policy on audit tendering and audit and non-audit fees. We also highlight the Audit Committee and auditor’s key judgements or risks of misstatement in relation to the audit.
- **Audit quality** - We also outline the materiality of the audit and whether the Audit Committee has discussed how they assess the quality of the audit. Finally, we assess whether the Audit Committee has made a statement as to whether they have taken account of the risks of climate change and any impact of alignment with the Paris Agreement into account whilst preparing the company’s accounts.

Our approach is to highlight potential departures from the UK Corporate Governance Code and include any company rationale, when available. IVIS flags potential areas of concern, for individual shareholders to judge whether the company’s approach is appropriate as this is a matter for the shareholders. The Corporate Governance Report can be colour coded for a number of issues: Board composition, diversity of the Board, executives on board committees and the CEO succeeding the Chair.

## ESG Report

The ESG report monitors compliance with our Long-Term Reporting Guidance as well as the climate change related disclosures. It is divided in five main areas, the first four are:

- Productivity;
- Capital Allocation;
- Human Capital and Culture; and
- ESG Risks and Opportunities.

They derive from the [IA’s Long Term Reporting Guidance](#) which was published in 2017 due to member concerns over how companies are reporting on the long-term drivers of value creation and productive enterprise. The questions in these sections closely follow the areas of focus outlined in the Guidance. This part of the report would not trigger any colour top, it is used so our members can note whether the companies provide any disclosures in these areas.

The fifth part of the ESG Report focuses on the Climate-related risks, and covers questions based on the four pillars of the TCFD. This report can be amber topped if the company does not make disclosures against all four pillars of TCFD (see response to Principle 4 for further details).

## Review process prior to the publication of IVIS reports

Once a report has been prepared by an analyst, it is subject to a second check by another experienced analyst, the Head of IVIS or Director, Stewardship, Risk & Tax. In some cases, this will involve a second review or a discussion between members of the IVIS team on the appropriate colour top.

IVIS uses publicly available information and does not send draft reports to companies before publication (other than for confirming factual accuracy or comment when we plan to issue a red top). This helps to minimise bias and the risk of an analyst being put under pressure from companies or other advisors. IVIS routinely sends companies (except investment trusts) a copy of their IVIS report following publication. IVIS does not charge companies for a copy of their IVIS report. At this stage, some companies provide additional rationale or explanations for their decisions. IVIS reports may be updated to reflect the feedback where appropriate. If the company provides material new information or an assurance on approach, IVIS would consider the appropriateness of the colour top of the IVIS report.

## Principles regarding company contact and engagement when preparing the report

By extracting additional non-price sensitive information from the company, we consider that we facilitate the engagement process between companies and investors by allowing information to be quickly and more widely disseminated. We focus the inclusion of additional information from companies on new information rather than where company presents existing information in a different way.

- Where necessary, we engage with the company for further detail on any aspect of their disclosures.
- This engagement tends to be at Company Secretary or HR Director level but where appropriate we will engage with the Chair of the board, the SID, Remuneration Committee Chair, or other board members.
- On remuneration matters we avoid, where possible, speaking to executive directors given their participation in the pay schemes we review.
- Where a company representative is unavailable, we will contact relevant advisers, such as lawyers, brokers, or remuneration consultants, for more information.

## Company engagement between shareholder meetings including the remuneration consultation process

IVIS helps to facilitate engagement between IVIS, IA members and companies (which may include some companies outside our normal coverage). Most engagement with companies is initiated by companies and relates to executive remuneration. Companies contact IVIS if they wish to seek views on their proposals relating to the Directors' pay. IVIS reviews the proposals against the IA Guidelines and current best practice and would raise any potential concerns with members and the company.

The process starts with the company requesting to engage with the IA or IVIS on their proposals. This is usually done in the form of a letter or email. Given the confidentiality of such engagement, we ask the company if they wish to obtain IVIS feedback only or if they wish us to seek feedback from the members they have also consulted on their proposals. IVIS provides feedback based on the company's proposals when analysed against our Guidelines and other best practice provisions. IVIS informs the company of potential breaches of best practice and potential areas of member concern. IVIS also seeks additional explanations or rationale on the proposals, if necessary.

In most cases, companies would also like to receive feedback or views of our members. In such cases the company is asked for the list of members they have consulted. IVIS will then send a summary of the proposals to these members along with the original proposal from the company. This summary is in a consistent format which covers the changes which are being proposed, the overall structure of remuneration, the company's rationale as well as any wider company context such as performance or tenure of the executives. IVIS provides its questions and comments, which shareholders may consider when reviewing the proposals. These may include – areas that need further clarifications from the company, indication of the likely colour top approach, potential concerns, or breaches of best practice.

Once member feedback is obtained, this is summarised and sent to the company on a generalised and anonymous basis, along with the IVIS feedback, based on our assessment of the proposals against the Principles of Remuneration. The remuneration consultation may have further iterations. The company may amend the proposals based on investor feedback and seek further comments or it may decide not to make any changes but to provide more detailed rationale. IVIS would forward the communication from the company to members and seek any further comments which IVIS would then relay back to the company.

The process is considered finished when the company issues the final letter summarising the changes or where the proposals are submitted for shareholder approval. At each stage of this process, companies or members may request a meeting. When members request a meeting with the company, this will usually take a form of collective engagement which is described in more detail below.

IVIS also receives letters from companies, informing investors on the company's decisions, rather than seeking to consult with them. In such cases, IVIS would not normally seek the views of our members. We would, however, review the contents of the letter and inform the company on areas of potential concern, particularly any issues which will likely lead to a colour top. Occasionally, IVIS receives queries from members, which prompts further IVIS engagement with a company. At each stage of the consultation process, remuneration consultation summaries and feedback to companies are checked by a senior analyst, the Head or Deputy Head of IVIS or the Director, Stewardship, Risk & Tax to ensure they fairly reflect the company proposals and member or IVIS feedback.

Some companies engage with IVIS to discuss corporate governance matters such as board diversity, succession planning or other ESG issues such as say on climate. Companies may also want to discuss the assessment or analysis included in the IVIS reports, this is often ahead of the company preparing their next annual report, so that they can meet investor expectations. While most of these discussions focus on remuneration, a number of engagements also relate to compliance with the UK Corporate Governance Code as well as the ESG Report.

During 2022, IVIS received letters or communications from 176 companies (2021: 170 companies) on remuneration or corporate governance matters this resulted in 53 meetings with companies during 2022 (2021: 80 meetings). In some instances, this has impacted the approach the Remuneration Committee took from withdrawing proposals, amending proposals, or provided additional information or context on their decisions and the approach taken. Given that several shareholders and proxy advisors will also be providing similar feedback to companies we cannot provide any direct link to the impact we have. But the resulting follow-up letters and specific feedback to our questions show that Remuneration Committees consider and respond to our specific concerns. In 2022, we had one company commenting that the specific change to their proposals was made in order to meet the IVIS approach.

This process helps IA members manage the level of remuneration consultations that they receive and allows companies to have direct feedback from IVIS and our members. Our members have confirmed that the remuneration summaries are helpful for their own analysis. The feedback provided by IA members and IVIS allows companies to understand the potential areas of concern and the severity of issues prior to the proposals becoming public, which allows companies to improve their disclosures and rationale, amend or withdraw proposals if they are unlikely to get shareholder support. Through IVIS feedback, IVIS try to encourage companies to provide better quality explanations of their decisions or decision making in the Annual Report, as we recognise that not all shareholders will have been consulted and aware of the issues raised during the consultation, those shareholders not part of the consultation will need to make an informed decision, so will need these additional explanations. A summary of shareholder views heard during the consultation will be included in the IVIS report.

The IA also maintains a Public Register of shareholder dissent. The Register highlights all companies that receive more than 20% of shareholders voting against any resolution. The Register includes the resolution and whether the company acknowledged the vote at the time of the meeting accompanied with a statement explaining what action it intends to take to understand the reasons behind the vote result. It also monitors those companies that have responded to the dissent with an update statement. IVIS highlights when companies have been on the Public Register for the last AGM and the company's response. We also have meetings with individual companies that are interested to understand the reasons for the significant vote against and what investors expect from the company's response. Whilst we cannot provide explicit rationale why a shareholder may have voted against; we are able to provide concerns raised by IVIS and general market sentiment on the issues raised.

### Collective Engagement

Occasionally, IVIS or the IA facilitates a collective meeting. These normally take place at the request of members to address an issue of concern such as executive remuneration or the appointment of the CEO as the Board Chair. A request for a collective meeting may come from members but, if IVIS believes an issue is contentious enough to warrant such a meeting, it would engage with members to test the appetite for collective engagement. Some companies also approach the IA and IVIS to engage collectively with members to meet a number of shareholders who they may not be able to see individually. We will arrange a collective meeting if there is sufficient demand from members.

We held one collective engagement in 2022 (2021: one). This engagement was at the request of the company, it was arranged after the publication of the company's Annual Report and before the AGM. With the purpose of updating members, that are shareholders in the company, on their approach to remuneration, ESG and stakeholder experience. Feedback from both the company and shareholders was the meeting was informative and helpful to understand the company's approach and key issues that concerned investors.

### Review of Emerging Trends or Potential Concerns

At all the above stages, the IVIS team seeks to identify emerging trends, unusual issues or new potential concerns. Some of these matters are discussed with members at formal committee meetings. These committee discussions shape the IVIS approach in terms of assessment, engagement, and may result in an update to our Guidelines.

## Approach to media enquiries

IVIS is a subscription-based service and does not generally disclose the colour tops publicly as we believe that this may result in a public focus on confrontation between shareholders and companies rather than a constructive dialogue, which can be counterproductive to the stewardship and engagement process. Press interest is usually disproportionately focused on public confrontation between shareholders and high street names with little regard to the underlying governance issues. However, the use of media may be appropriate in certain circumstances or when members believe that it would be helpful to create change within companies. Journalists occasionally become aware of the IVIS colour tops from sources outside the IA, and we may also disclose some cases by specific thematic issues as highlighted through our Shareholder Priorities such as board diversity, pension or climate change disclosures.

## Review of Governance Structures

Whilst the governance structures remain relatively stable, we keep them under review to assess whether any improvements can be made. As outlined in the last year's report, in 2020, IVIS appointed a Deputy Head of IVIS to help the Head of IVIS in day-to-day management of the team and report writing process. This was an important improvement, contributing significantly to team management during the pandemic. In 2021, we focussed on the development of the Deputy Head of IVIS in their role and in 2022, the Deputy Head of IVIS played an important role in developing the team, through training, mentoring and supporting junior colleagues through training, answering questions and reporting checking. They also took charge of the managing a number of team projects and liaised with the wider team to provide support to the policy team. As mentioned above, the Deputy Head of IVIS took responsibility for training and mentoring of the new Investment 2020 analyst in their development as the analyst.

As outlined last year, given the importance of engagement with the companies and the increased volume of the remuneration consultations, a designated senior analyst has been appointed to manage the remuneration consultation processes. In 2021, IVIS discussed with members of the Remuneration and Share Schemes Committee ways to improve the consultation process, we have produced guidance for companies and shareholders on IVIS' role and how the consultation process can support members. In addition, we have set up a new mechanism to allow members to provide feedback on consultations directly to the Senior Remuneration Analyst through booking time directly with them. This process did not have significant take up, so we are reviewing other ways to improve the process and get input from members.



# Principle 3 - Signatories identify and manage conflicts of interest and put the best interests of clients first.

As required by the SRD II and the FCA requirements for proxy advisors, IVIS has published the [Statement of Conflicts of Interests](#), where we have grouped together companies where there is a potential conflict of interest in the preparation of IVIS reports. They are grouped in the following four categories:

- Those IA members that are UK listed companies, which IVIS will produce an IVIS report on.
- Those IA members whose parent company is a UK listed company which IVIS produces a report on (the listed company is in brackets).
- UK listed companies which have an IVIS subscription.
- Those IA members who are a pension scheme managing money on behalf of a UK listed company covered by IVIS.

In 2022 we identified a total of 34 companies where there was a potential conflict of interest, however, due to consolidation or delisting of companies, we only produced IVIS Reports for the AGMs of 32 companies. For 2023, the conflicts of interest list has reduced to 29 companies.

The IA guidelines are formulated with the participation of the IA members in their capacity as stewards. These guidelines are therefore set in line with best practice and do not benefit any specific members. These guidelines are developed by the IA's Stewardship Committee and its sub-committees which includes members with a range of ownership types not just UK-listed firms. The variety of member views means that no one institution is given more weight than another.

When drafting reports on companies, that are also IA members, we strictly adhere to our Guidelines. We have processes regarding the colour topping and drafting the IVIS reports and as mentioned elsewhere in this report, analysts are appraised based on their adherence to these processes, which impacts on their year-end performance rating and potential discretionary bonus. Based on the above, analysts draft the IVIS reports on member companies following the same guidelines and processes as for any other company. We would also ensure that any conflicts of interests that may arise with any member discussions on specific companies or members are addressed. This may include individual committee members excusing themselves from the discussion if their employer is being discussed.

The IVIS team is long-standing and highly experienced in providing thorough research and consistent policy application without bias. The Head of IVIS, Deputy Head of IVIS and Director, Stewardship, Risk & Tax have 45 years of corporate governance and voting research experience and 36 years working with IVIS. All our reports are subject to thorough peer review, and where necessary wider internal discussion, to ensure the viewpoints put forward are consistent and without conflict. We believe the result is a robust and consistent approach.

IVIS has a clear remit within the organisation to act independently and uphold the IA’s guidelines irrespective of the report being on a member or any other listed company. As noted above the Director, Stewardship, Risk & Tax has ultimate responsibility for the colour coding decisions and they are never referred to the IA CEO or IA Board.

Analysis of the colour tops of the 32 companies on this conflicts list shows that in 2022 they received the following colour top assessments.

Report	2022			2021		
	Blue	Amber	Red	Blue	Amber	Red
Proxy	44%	50%	6%	41%	44%	15%
CG	69%	3%	28%	65%	9%	26%
ESG	97%	3%	N/A	97%	3%	N/A

When comparing with the overall colour tops for 2022, these figures are roughly comparable, save for the proxy report, which noted a higher number of amber tops and lower number of red tops. The lower number of red tops can be explained by the fact that the three main drivers of proxy report red tops in 2022 were:

- dis-application of pre-emption rights authorities sought by the investment trusts, which, in the first half of 2022 were above the level of the authority outlined in the Pre-Emption Group Guidance;
- Companies not providing credible action plan for the alignment of pension contributions by the end of 2022; and
- Highlighting the payment of bonuses to companies that received furlough money.

Since the companies from the conflicts of interest list are in majority commercial companies, they are not comparable to investment trusts. In addition, as explained last year, in our industry we have historically seen more general alignment of pension policies between executives and the general workforce. Finally, it should be noted that approximately 13% of all red tops were related to bonus payments when taking furlough money from the Government, which was generally not the case in the investment industry. When excluding these factors, the overall percentage of red tops falls to 7%, which is comparable to the outcome above. We therefore consider these reasons explain the colour top outcomes relative to the wider market during 2022.

The colour tops for the CG report, which mainly refer to diversity, differ from the overall outcomes, with more blue tops and less red tops. This may be caused by the following factors:

- A relatively small sample of 32 companies compared to the overall sample of 639 companies.
- Size of member companies in light of the performance of the FTSE 350 sector in addressing diversity (as evidenced by the FTSE Women Leaders Report – see case study on Gender Diversity in Principle 1), and the introduction of the red top for Small Cap companies not meeting the diversity criteria.

In addition, the internal assurance interviews outlined under Principle 6 shows that individual analysts do not feel under pressure regarding the preparation of reports for companies on the conflicts list. In addition to these IVIS processes, the IA has an external whistleblowing process. The IA employee handbook states that:

“The IA encourages employees to speak out if they think there is wrongdoing or bribery occurring which should be exposed. It is hoped that the issue could be raised with HR, a senior member of the Management team, Deputy Chief Executive or Chief Executive. However, if employees feel unable to do this (or wish to discuss the matter with someone outside the IA prior to pursuing it further), they are advised to contact Protect (<https://protect-advice.org.uk/>) which will be able to pass on concerns anonymously.”

We have reminded the IVIS team members of these whistleblowing processes.

**Other Companies/ consultants subscribers of the IVIS**

We also have a small number of corporate clients who subscribe to the service either through their HR team or the Company Secretary office. They use it as a way of tracking market trends and performing comparative analysis of remuneration. As with UK-listed IA members, our mandate is to apply our rigorous process consistently and we therefore continue to strictly adhere to our Guidelines. Corporate subscribers have neither sought, nor received, any advantage over their peers. We consider the number of these clients and the revenue they generate to be immaterial to IVIS.

**Personal conflicts of IVIS employees**

Situations giving rise to conflicts of interest may exist due to a member of the IVIS team (or a close family member) holding or trading shares in a company which IVIS produces an IVIS report for, or due to a personal or close relationship with employees of such companies. IVIS and the IA require members of the IVIS team to alert their manager to any such potential personal conflicts of interest prior to the commencement of any research. In such cases, analysts are removed from the preparation or checking of such IVIS reports or engagement with these companies. During 2022, there were no cases where individual analysts excused themselves from the preparation of an IVIS report due to potential personal conflict of interest. However, there were two examples where the Director, Stewardship, Risk & Tax and Head of IVIS identified a personal conflict of interest and they excused themselves from the reporting checking process.

In 2023, we have already had one case, where the IVIS team member excluded themselves from company engagement due to personal conflict of interest. We have two cases where team members have spouses working or significant business relationship with FTSE 100 companies. These conflicts have been communicated to the Director of Stewardship, Risk and Tax and the Head of IVIS, and are noted in the internal conflicts of interests log. These team members are excluded from any engagement, preparation or checking and publishing of the IVIS report on that company. Likewise, the Director, Stewardship, Risk & Tax has a current personal conflict with a Chair of a FTSE company. This conflict has been noted in the internal conflicts of interests log and the Director, is excluded from any engagement, preparation or checking and publishing of the IVIS report on that company.

**Review process prior to the publication of IVIS reports**

IVIS reports are subject to a review by a different member of the IVIS team prior to publication, in order to manage any conflict and ensure consistent adherence to the guidelines. Once a report has been prepared by an analyst, it is subject to a second check by another experienced analyst, the Head of IVIS or Director, Stewardship, Risk & Tax. In some cases, this will involve a second review or a discussion between members of the IVIS team on the appropriate colour top.

IVIS uses publicly available information and does not send draft reports to companies before publication (other than for confirming factual accuracy when we plan to issue a red top). This helps to minimise bias and the risk of an analyst being put under pressure from companies or other advisors.

## **Consulting services**

IVIS does not provide any paid for or bespoke governance consulting services to companies. However, we may engage with companies outside of the proxy season over matters such as remuneration or corporate governance in general. Such consultations are limited to providing companies with feedback on their proposals, based on our guidelines. IVIS and the IA do not receive any fee for these consultation exercises. During these engagements we do not guarantee a particular colour top or IVIS approach.

# Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

The IA represents the investment management industry, which plays a pivotal role in the UK and international economy. Our key purpose is to make investment better for savers and investors, for companies and their employees, and for the economy. The IA works with its members, constantly seeking their views and taking action in areas which need addressing. Our members are seeking to deliver long term returns and are therefore interested in promoting sustainable market environment. Among their main priorities is to ensure that companies in which they invest are run to generate long-term returns for shareholders and ultimately savers. Members want to ensure that companies are well governed and are addressing material risks to their long-term health. This is a vital part of the investment process because companies that effectively manage these risks are more likely to deliver the best results for shareholders and savers.

The wider work of the IA seeks to address a range of market-wide and systemic risks to promote a well-functioning market. In the Stewardship Team this includes the preparation of guidance on [Improving Fixed Income Stewardship](#) and seeking to improve the incorporation of stewardship factors within the relationship between investment managers and pension funds through the IA/PLSA Report: [Investment Relationships for Sustainable Value Creation](#). The current initiatives connected to IVIS that address market-wide and systemic risks focus around the impact of climate change, diversity and pensions. In the year under review, we also responded to the impact of the invasion of Ukraine into our IVIS reports (the approach to diversity, pensions and invasion of Ukraine was outlined in Principle 1 above). Systemic risks are identified in consultation with members, considering the issues which are important to a wide spectrum of members, and which allow the IA and IVIS to have a consistent approach which can represent member views and drive change.

In 2020, the IA published [Shareholder Priorities for Listed Companies](#), which have been updated annually since. The [Shareholder Priorities for 2023](#) were published in February 2023. The Priorities outline four areas that our members asked us to prioritise to drive long term value:

- **Responding to climate change** - Companies should proactively identify and manage climate related risks and opportunities as managing them is critical for companies to minimise the negative impacts of climate change on their long-term value and to help realise the financial opportunity of a sustainable transition.
- **Audit quality** - A high quality audit, where the auditor challenges management’s judgements and assertions, displays independence from management and exercises professional scepticism, supports robust financial information. This enables investors to make informed investment decisions and helps to identify any concerns about the long-term viability of a company.
- **Stakeholder engagement** - The relationship between a company and its key stakeholders (such as its employees, customers, suppliers, and the environment and communities it impacts) is an important determinant of its long-term value. A well-managed stakeholder relationship helps companies to build a more robust strategy and make more informed business decisions. Companies who do not

treat their stakeholders appropriately are unlikely to enjoy success in the long term and may suffer reputational damage which will further hinder success.

- **Diversity** - Members consider diversity as a core and critical business issue that boards and leadership teams must address to secure their long-term success. Whilst this is a matter of fairness, there is evidence that more diverse boards make better long-term decisions, leading to more productive and sustainable businesses.

In addition, in 2023, we recognised that Boards need to be considering emerging risks, such as biodiversity and the Priorities set out the importance of biodiversity to IA members. However, members consider there is significant benefit to retaining a focus on the same four issues consistently over the longer term, to seek and achieve progress on each issue. The document also explains how IVIS reports would reflect these issues and the intended colour top approach for companies not meeting member expectations.

## Climate change

The IA called on all listed companies to explain in their annual report what impact climate change will have on their business and how the company is managing risks and pursuing opportunities, in line with the four pillars of the Task Force on Climate-related Financial Disclosures (Governance; Risk Management; Strategy; and Metrics and Targets).

In 2020, IVIS introduced a new section to its ESG report, highlighting to investors whether the company made climate change-related disclosures, through four questions aligned with the four pillars of TCFD. In 2020, the lack of compliance with these disclosures did not result in a colour top. This changed in 2021, when members asked IVIS to highlight on an amber top, companies in the high-risk sectors, who had not provided disclosure against all four pillars of TCFD (Governance; Risk Management; Strategy; Metrics & Targets). In 2022, IVIS applied this colour top approach for any commercial company, irrespective of the sector, and the same approach will be applied in 2023.

2022 saw a significant improvement in disclosures against the four pillars. Whilst in 2021 IVIS amber topped 61 out of 270 high-risk sector companies, 2022 saw 48 amber tops across our whole coverage (FTSE All Share and 50 largest Fledgling companies). Data from the IVIS post-season review suggests that the main trigger for the amber top was linked to climate-related measures and targets, and many companies confirmed, either to IVIS or in their Annual Reports that they were in the process of developing meaningful targets. Given the improved level of disclosures compared to 2021, a lower number of companies engaged with IVIS following the publication of the report to discuss IVIS approach or to confirm the intention on improve the disclosure in the future.

During the year there were also companies that engaged with IVIS prior to the publication of their Annual Report, to discuss climate change issues which related to shareholder resolutions on climate, management resolutions to approve the company's climate-related reporting or aspirations, or to outline the company's strategy on climate-related issues and discuss the ways to incentivise the management to deliver these targets. We met seven FTSE 100 companies in 2022 (2021: 5) explicitly to discuss these matters. ESG and climate change continue to gain importance and we are currently reviewing the ways to develop this part of the IVIS report to reflect the increased focus on these matters and to help our clients to engage with companies.

The 2023 Shareholder Priorities set out three areas of particular importance to investors when reporting against TCFD:

**Metrics and Targets** – In 2022, 98.8% of companies in the FTSE 100 made disclosures on metrics and targets in comparison to 93% in 2021. While this is positive, investors would like to see companies focus on disclosing:

- The frameworks and methodologies used for setting targets and measuring progress;
- The targets which have been set over the short, medium, and long term; and
- The progress against targets to date and explaining whether it is in line with expectations.

**Scenario analysis** – members have noted that there are significant omissions and variations in the approaches taken to climate-related reporting on scenario analysis by FTSE 100 companies. For example, on the level of detail on the impact of the scenario analysis and how this informs future financial planning and the company strategy. Investors would welcome greater disclosure on the process and governance of scenario analysis, including:

- how climate scenario analysis impacts the company’s business model and strategy; and
- any changes the Board has made to the business model and strategy as a result of the outcomes of scenario analysis.

**Transition Plans** - As more companies set ambitious targets to reach net-zero by 2050 or sooner, investors expect climate pledges to be operationalised through robust plans on how companies will transition towards a low-carbon economy. Transition plans play a key role in enabling investors to assess the progress of investee companies on the path to net-zero, which in turn will inform more sustainable capital allocation decisions. The Transition Plan Taskforce (TPT) is currently concluding a draft version of its framework. Whilst we await the final output of the TPT, IA members expect companies who have set interim net-zero targets to start producing Transition Plans against the TCFD supporting guidance on Metrics, Targets and Transition Plans, alongside the emerging interpretive guidance on a sector-neutral framework from the TPT.

IVIS has updated the IVIS report for the 2023 AGM season to address these specific expectations of companies.

## Accounting for Climate Change

Investors rely on the quality and reliability of the audited information companies report to the market when making investment decisions and holding company management and boards to account. Under existing accounting and audit requirements, material climate-related matters should be treated the same as any other material factor and incorporated in the financial statements and associated notes. These should reflect both the physical risks of climate change and the transition risks arising from interventions designed to align with the Paris Agreement and transition the economy to net zero-emissions. IA members expect companies to reflect climate-related matters in their annual report and accounts and should consider using the framework and educational guidance provided by the IASB and the Investor Expectations for Paris-aligned Accounts published by the Institutional Investors Group on Climate Change (IIGCC).

In 2021, IVIS highlighted to investors those FTSE All-Share companies that included a statement in their annual report and accounts that material climate-related matters have been incorporated by asking the following question:

- Have the Directors considered the relevance of material climate-related matters, including the risks of climate change and transition risks associated with the goals of the Paris Agreement, when preparing the Company’s accounts?

The inclusion of this question in the IVIS Report was aimed to encourage companies to review and report on the impact of climate change on their financial statements. This will require companies to start on the journey to reporting on the risks of climate change, which is needed for the company, their shareholders, and the wider economy. This is of particular importance given the requirements on asset managers and asset owners to report on the impact of climate change on their portfolios. While we observed a sizable increase in the number of companies making such statements and incorporating the financial impact of climate-related matters into the company’s accounts, the proportion across the FTSE 100 is still quite low, with 51.8% making a statement in 2022, in comparison to 14.8% in 2021. Even where companies had incorporated the financial impact of climate-change into their accounts, the Audit Committee rarely made a statement to confirm this. This failed to meet the specific expectations as set out in the Shareholder Priorities. IVIS will take a similar approach in 2023.

## Quality of Audit

Investors have always recognised the importance of audit quality. They rely on the financial information to make informed investment decisions. The quality and robustness of the audits of company accounts are essential to making good investment decisions and to hold management and boards to account. For members, a high-quality audit is one where the auditor challenged management’s judgements and assertions, displayed independence from management and exercised professional scepticism. The audit failures in the past have undermined the trust in audits and has serious ramifications for a broad range of key stakeholders. In 2020, IA members published their expectations of companies outlining what Audit Committees should do to ensure the audit quality. The expectations also covered the disclosure provided in the annual reports. To monitor company disclosures, IVIS has included two questions in its reports:

- Has the Audit Committee demonstrated how it assessed the quality of the audit, including how the auditor demonstrated professional scepticism and challenged management’s assumptions where necessary?
- Has the Audit Committee demonstrated how it challenged management’s judgements and what happened as a result?

Whilst these questions, on their own, do not drive a colour top, we have seen increased engagement from companies in these areas. In 2022, we held 2 company meetings (2021: 3) specifically on audit quality, and we had numerous discussions of these issues with companies after the publication of the IVIS reports. In majority of cases, companies wanted to understand what disclosure is required to comply with these questions and IVIS provided relevant feedback. On some occasions, companies considered their disclosures were sufficient, in which case IVIS reviewed the company explanations and either revised the report or explained why the disclosure was insufficient.

In 2022, we have noted an improvement in disclosures regarding the Audit Committee’s challenge of management judgements, with 60 (2021: 42) FTSE 100 companies providing such a disclosure. There has been a fall in the number of companies that provided sufficient disclosures in relation to audit quality, from 17 in 2021 to 9 in 2022. This may be due to the fact that the question is a complex one, covering three themes (quality assessment, professional scepticism and challenge of management assumptions) and with increasing



expectations we have applied a stricter approach. For 2023, this question will be broken down into to enable companies to provide targeted disclosures on:

- how the Audit Committee has assessed the quality of the audit;
- how the auditor has demonstrated professional scepticism; and
- how the auditor has challenged management’s assumptions where necessary.

## Creating a Sustainable Economy

In February 2022, the Director, Stewardship, Risk and Tax wrote to FTSE 350 Chairs to invite them to participate in a series of roundtables on a sustainable economic recovery. Investors considered that now was the time to focus the key sustainability challenges and risks that could impact on the long-term value of companies over the next 10 years into the 2030s. As stewards of their clients’ capital, it is the role of investors to support investee companies to adapt and strengthen their business model in response to these sustainability challenges.

The objective of the sessions was to identify the key sustainability challenges and risks that could impact the long-term value of companies over the next decade or so. Whilst each company faces challenges unique to its business model, through open dialogue a number of themes were identified which were common to many companies and sectors represented. The IA’s members had identified three key areas which are of particular concern to investors, when considering the long-term value of their investments: natural capital and climate change; welfare and composition of the workforce; and interactions with stakeholders and wider society.

We held four roundtables during April and May 2022, there were 45 different FTSE 350 companies represented, predominantly by the Chairs of the Board, but also other Non-Executive Directors and Heads of Sustainability. These representatives were drawn from diverse sectors including Financial Services, Extractives, Oil & Gas, Utilities, Food Retailers, Luxury Goods, Pharmaceuticals, Telecommunications, and Real Estate. Each session also had representation from various IA members including from CIOs, Portfolio Managers, and Heads of Stewardship and Responsible Investments. Companies felt that this was an important discussion, and they welcomed that the IA had instigated the sessions. Some noted that they particularly welcomed that the invite was addressed to Chairs and that those Chairs present welcomed the opportunity to engage in dialogue with their shareholders directly on sustainability issues.

There was significant discussion on the need for more consistent reporting expectations on sustainability issues, with companies concerned with the breath of issues which they were expected to report on. It was clear that both investors and companies felt that the implementation of ISSB reporting standards would be beneficial.

On specific sustainability issues there were significant discussions on climate change, biodiversity and human capital. Whilst these conversations did not lead to specific outcomes for IVIS, the conclusions of these discussions will be taken forward by the IA in a number of workstreams including our continued arguing for appropriate sustainability reporting requirements through ISSB, better communication of the way that IA members conduct their stewardship activities and the impact of regulation on the approach that asset managers take to stewardship.

# Principle 5 - Signatories support clients' integration of stewardship and investment, taking into account material environmental, social and governance issues, and communicating what activities they have undertaken.

IVIS has two major groups of subscribers – IA members and company advisors. The IA members are the UK-based global asset managers, and significant investors in UK listed companies. These clients are all institutional investors who invest on behalf of a range of institutional and retail clients. These clients constitute 52% of subscribers. These institutional investors are predominantly the largest investors in the UK and have a mix of investment styles including active and index investing. The company advisors include remuneration consultants and legal advisors. This group constitutes 39% of our client base. We also have a small number of listed companies as subscribers and proxy solicitation firms (9%).

As set out in our response to Principle 1, IVIS has regular dialogue with its members, through the IA Committees, which meet every six weeks, and on an ad-hoc basis. We also have engagement with individual asset managers. With regard to company advisors, we have regular dialogue with them individually, so they can understand our approaches and expectations of companies. Through these conversations IVIS gets an understanding of the perspectives of companies on remuneration issues. As noted above, through the remuneration consultation process we have meetings with their clients which they sometimes attend and are able to hear our views. The IA also presents our views and expectations on a range of issues through our own webinars/events, at specific forums or events organised by other organisations or advisors. This allows us to present our views directly to advisors and companies. During 2022, we have participated in 16 (2021: 15) speaking events to outline member expectations and the IVIS approach.

As explained above, the IA guidelines used by IVIS are approved by the IA members, including IVIS subscribers, and updates to the IVIS report and the colour top approach are also discussed by the Committees. Members can steer IVIS to focus on specific issues and also provide their feedback on effectiveness of the IVIS work and areas for improvement through these discussions or through direct feedback. For example, following the Russian invasion of Ukraine, as part of wider discussions on how to respond to the emerging problems members asked IVIS to flag through the IVIS reports any companies with significant exposure to Russia or Ukraine.

We also receive individual feedback, and we may act upon it when possible and where we believe it adds value. For example, prior to crystallisation of guidance on audit quality, IVIS included additional questions relating to audit and accountability, based on individual feedback from members. This approach to reviewing feedback from clients and members, is very helpful as it is direct and specific, it is usually in a forum which allows us to discuss and calibrate the differing member views to arrive at a consensus approach which

represents member views. This is confirmed through the IA committee process. We continue to evaluate and refine the approach we take discussing the IVIS guidelines and approach with members and the Committees to ensure that we get the most out of these discussions and focus on the most material issues which need to be addressed.

In 2022, the IA initiated a project to consider how IVIS could continue to evolve to meet subscriber needs, this included a number of structured interviews with subscribers. They provided feedback on IVIS and how it could be evolved. The feedback was positive with some immediate suggestions on areas to improve the current product, such as making the STATUS of the remuneration note more succinct. The IVIS team are implementing this change immediately for the 2023 AGM season. Providing a structured conclusion on key decisions made by Remuneration Committees during the year and a much shorter STATUS focussing on the drivers of the colour top or any improvements made during the year. IVIS is considering other changes such as future coverage and extending our focus on sustainability disclosures which will be implemented as part of a wider IT upgrade.

# Principle 6 - Signatories review their policies and assure their processes.

As set out in our response to Principle 1, the policies, and approaches which IVIS uphold are determined and updated following discussions with IA members through our Stewardship Committee, Remuneration and Share Schemes Committee and Corporate Reporting and Auditing Group to ensure that they meet member and subscriber stewardship approaches and expectations. The IA Principles of Remuneration are reviewed annually and published alongside a letter to Remuneration Committee Chairs each November. We have published our Shareholder Priorities annually since 2020, with the latest version published in February 2023 which are available on our website. Other guidance and expectations are reviewed by members but not necessarily updated annually. As noted with our response to COVID and the Russian Invasion of Ukraine, we responded to subscriber needs to update our reports to ensure that they were useful to shareholders.

As outlined in Principle 2, the IVIS approach to the report writing and checking processes delivers high quality reports which are factually accurate and consistently highlight matters against our guidelines or expectations and best practice. We also send reports to the companies we analyse (either prior to publication, in case of a red top, or post publication in other cases, other than investment trusts). Companies are encouraged to highlight any factual inaccuracies, comments or further information which may be helpful, and we update our reports if any factual errors exist, or a company has provided additional rationale or clarification, subject to the company confirming that such information can be included in the IVIS report. This feedback gives us an indication of quality of our research and if there are any issues with our report writing process or the quality of individual analyst's approach. In addition, company advisors, who also subscribe to IVIS would review the reports and may challenge our assessment. This may lead to a further review and engagement to obtain clarifications, which serves as another means of assessing the quality and accuracy of our reports.

In addition, we have a proactive subscriber base who will provide feedback on the IVIS colour tops or the assessments we make. This allows us to assess whether we are meeting subscriber expectations and whether our approach needs to change or be updated. This will often lead to discussions with the appropriate Committee to see if our approach needs to be amended. We believe that feedback from our subscribers and companies we analyse, combined with the culture of dialogue and multiple report checking layers ensures fairness and balance of the report as well as their accuracy and understandability.

The remuneration consultations processes are reviewed by the Remuneration and Share Schemes Committee. At each Committee session, members review IVIS summaries, provide feedback and discuss concerns. The Committee also makes proposals on how to improve the process.

In 2020 we created internal process documents to ensure that the team members are taking a consistent approach to the key IVIS processes, these include:

- Report writing
- Remuneration consultations
- Colour top approach; and
- Analyst training

The processes are reviewed and updated to reflect changes in IVIS approach or to improve them based on internal and external feedback. The adherence to these processes is reflected in the annual performance appraisal and can impact on the overall rating, which determines the level of a discretionary bonus. In 2022, we did not have any cases of breach of processes and only updates were made to reflect the revised colour top approach based on evolving expectations of members through the Principles of Remuneration or Shareholder Priorities.

## Assurance Process

Since the introduction of the 2020 Stewardship Code, given the size of our organisation, we have used an internal assurance process as we felt that an external assurance process would be disproportionate. As the IA does not have an internal audit function, we have developed an internal assurance procedure which is led by the Deputy CEO, supported by the Internal Counsel. As part of this internal review, they interview IVIS analysts with a focus on the following aspects:

- **The IVIS processes** – is the analyst aware of the IVIS processes and have they had adequate training?
- **Conflicts of interest** – including the management of personal conflicts and if individual analysts have felt under pressure regarding the approach to companies on the conflicts list.
- **Engagement and dialogue with companies** – exploring how the engagement with companies is working including whether the analysts feel under undue pressure to change the report or approach following engagement. If they are well supported by their managers in these engagements.
- **Decisions on colour tops** – do analysts feel that there is appropriate discussion and individual analysts have input into the colour top and the key conclusions of the report?
- **Remuneration Consultation process** - Is the remuneration consultation process with companies working and are we able to give sufficient information to companies on the approach which IVIS will take on the proposals?
- **Conclusion** - Are the processes working and covering all elements of IVIS and are there any ways that the IVIS processes could be improved?

## Outcomes of the interviews in 2022

Two interviewees were chosen at random from existing employees who worked as IVIS analysts during the 2022 AGM season. The selection of the interviewees was conducted under the supervision of the IA's counsel from Cleveland & Co. The Deputy CEO conducted the interviews, with counsel observing. The key outcomes from the interviews were:

- Both interviewees were aware of the IVIS process documentation, and both had received adequate, comprehensive and ongoing training on them.
- One interviewee said that they experienced no conflicts of interest at all in the past 12 months, particularly feeling under no pressure when red topping a member. The second analyst had raised no conflicts or issues with the approach to individual colour tops. They noted that minor issues were escalated and discussed with the Head of IVIS or Director, Stewardship.
- Both interviewees thought that the engagement process worked well, with one interviewee commenting that it seemed to be stronger than before and the other stating that there was adequate opportunity for engagement and communication with companies in advance of publication. They felt under no undue pressure to make changes to their reports as a result of engagement. Companies made the case for changes to their reports in a legitimate way.

- Both felt well supported by the management team.
- Both interviewees felt that decisions on colour tops were appropriately deliberated upon with a transparent process. For the past 12 months the colour topping decisions made have not been unreasonably against their will.
- Both welcomed the process to review the IVIS website and seek subscriber feedback to and noted it was already leading to changes in approach.
- Both interviewees stated that they believed the IVIS approach and processes were fair and worked in their experience of them. Neither had any recommendations for improvement. Both were offered the opportunity to make any further relevant comments or observations but neither mentioned anything further.

The findings of this review were presented to the IA Finance, Audit and Risk Committee in April 2023.

## Review of assurance process

Following the internal assurance process conducted in March 2022, the IA's Finance, Audit and Risk Committee ask the IA to explore if external audit or assurance of IVIS processes should be implemented. The IA conducted a review of external assurance for other service provider signatories to the Stewardship Code as well as considered broader sentiment of stewardship assurance. The IA recommended to the IA FAR committee that we should maintain our approach to internal assurance for the following reasons:

- There is no applicable assurance standard for our business at the current time,
- There is not a sufficient market for assurance providers in our sector,
- Members who have received assurance from external providers continue to question the cost-benefit from such services,
- IVIS provides detailed processes and disclosures on our internal assurance processes compared to other service provider signatories who conduct both internal and external assurance.

The Committee agreed with the IA's recommendation to maintain the current approach, but the IA committed to continue to review the options for external assurance, including the evolution of assurance standards, assurance provision and market practice to find a cost-effective approach to assurance of IVIS processes.

## Fair, Balanced and Understandable

Through this stewardship report, IVIS have fairly reflected the approach IVIS and the IA take to developing the IA guidelines and the IVIS approach to implementing the guidelines. We have identified areas where we are developing our approaches, challenges we are seeking to address such as the balance of colour tops, or need to change approach as a result of member or company feedback. We have discussed how we have managed the conflicts of interest. IVIS believe that identifying the areas of continued improvement helps to demonstrate that the report is fair, balanced and understandable.



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