

## **The Wates Corporate Governance Principles for Large Private Companies**

Aberdeen Standard Investments is one of the world's largest active asset managers with assets under management of £575.7bn (as at 31 December 2017). We are a highly diversified business by revenue, asset class, client and geography. Within our Private Markets operations, we manage £13 billion across various Private Equity strategies (primary fund investments, secondary fund investments and co-investments) in Europe, North America and Asia. This covers a wide spectrum of size of private companies, from small venture capital-backed businesses to large buyout transactions.

We welcome the initiative to develop corporate governance principles for large private companies and are pleased to provide our comments on the consultation. When making investment decisions, the two heritage businesses which form Aberdeen Standard Investments have long recognised the importance of strong corporate governance. A strong governance framework contributes to the creation of successful and sustainable companies as well as helping companies identify and manage opportunities and risks. This applies equally to private and listed companies.

We believe that this initiative also has a role to play in the re-building of trust in business by encouraging a more considered approach to governance and improved transparency.

The draft Principles present a good opportunity for private company boards to have a dialogue on governance using the Principles as a framework. As Private Equity investors, we analyse the governance arrangements of the companies we invest in and we would expect to use the Principles as part of that dialogue. We analyse the governance arrangements of companies in which we are considering a direct investment (co-investments). For our fund investments, we look at the fund manager's approach to various ESG topics and how ESG is implemented and monitored across their investment portfolios. In terms of our own monitoring efforts, we ask our managers to respond to our annual ESG questionnaire which addresses governance issues as well as other ESG topics. In this year's questionnaire, one of our governance related questions has a specific focus on board composition, which is one of the key focus areas in the Wates Governance Principles (principle 2).

It is intended that subsidiary companies are covered by the Principles. However, many subsidiary companies are already covered by governance statements made by their listed parent company. In such cases, we are not convinced that an additional statement is required. We consider that the parent company has legal liability for its subsidiaries and take this into account e.g. in credit ratings. In addition, we do not think that asset managers will necessarily review the additional statements provided by the subsidiaries of listed parents.

In terms of the consultation questions, we provide specific comments below.

### **1. Do the Principles address the key issues of the corporate governance of large private companies? If not, what is missing?**

We believe that the Principles do address the key issues.

### **2. Are there any areas in which the Principles need to be more specific?**

Principle Two – Composition - refers to individual evaluation of directors. We believe that board evaluation is an important tool for board analysis and development and hence there should also be an

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evaluation of how the board works together as a whole and how individual board members' skills are complementary to the skills of others. Also in Principle Two, there is reference to diversity. It would be useful to specifically mention the objectives set by the 30% Club and suggest that private companies should use these as aspirational targets. In Principle Three – Responsibilities – it would be useful to make the importance of good succession planning more obvious.

**3. Do the Principles and guidance take sufficient account of the various ownership structures of private companies, and the role of the board, shareholders and senior management in these structures? If not, how would you revise them?**

There is a distinction to be made between companies which are owned and managed by the same individual/individuals and those where ownership and management diverge, particularly in the case of private equity. In the latter case, private equity owners are investing, as asset managers, on behalf of their clients and, as is the case with asset managers who are shareholders in listed companies, they share some of the responsibility for implementation of the Principles with the board of the company. This responsibility comes in the form of an expectation that they will engage with the board on governance issues, and will encourage the board to consider these issues thoughtfully and to adopt good practice. In most cases, the fund manager will take one or more seats on its portfolio companies' boards, which provides the opportunity for active ownership and strong board governance. This also makes it possible for the private equity owner to closely monitor the company's ESG approach and actions.

**4. Do the Principles give key shareholders sufficient visibility of remuneration structures in order to assess how workforce pay and conditions have been taken account in setting directors' remuneration?**

No comments

**5. Should the draft Principles be more explicit in asking companies to detail how their stakeholder engagement has influenced decision-making at board level?**

Some companies may choose to do so, but a specific requirement to detail how shareholder engagement has influenced decision-making at board level would seem overly prescriptive and may encourage a 'box ticking' approach.

**6. Do the Principles enable sufficient visibility of a board's approach to stakeholder engagement?**

It is worth considering if there an opportunity to use the AGM as a mechanism to demonstrate engagement with stakeholders e.g. encouraging stakeholders to attend and using the AGM as an opportunity to communicate with them.

**7. Do you agree with an 'apply and explain' approach to reporting against the Principles? If not, what is a more suitable method of reporting?**

We believe it is sensible to use the same broad structure for the Principles as is used in the UK Corporate Governance Code although recognising that, due to the diversity of types and sizes of private companies covered, the Principles are necessarily more high level. This means that the 'apply and explain' approach should be workable but, over time, should be reviewed to ensure it does not restrict flexibility. The key is to ensure that there is genuine application of the Principles and they are not simply seen as a compliance requirement

**8. The Principles and the guidance are designed to improve corporate governance practice in large private companies. What approach to the monitoring of the application of the Principles and guidance would encourage good practice?**

Reporting on governance arrangements provides an opportunity for companies to demonstrate their approach to ESG and to differentiate themselves from their peers. However, in our view, there is a question mark over monitoring. Who will actively review and monitor the disclosures? It is unrealistic to expect the FRC to do so unless they are given a specific remit and the necessary resources. Where a company has private equity owners, then these owners have a role to play in monitoring: by reviewing the company's disclosures and discussing these with the board, they can encourage a considered approach and improved practice.

**9. Do you think that the correct balance has been struck by the Principles between reporting on corporate governance arrangements for unlisted versus publicly listed companies?**

No comments

**10. Any commentary on relevant issues not raised in the questions above.**

As stated in our opening remarks, we understand that it is intended that subsidiary companies are covered by the Principles. However, many subsidiary companies are already covered by governance statements made by their listed parent company. In such cases, we are not convinced that an additional statement is required. We consider that the parent company has legal liability for its subsidiaries and take this into account e.g. in credit ratings. In addition, we do not think that asset managers will necessarily review the additional statements provided by the subsidiaries of listed parents.