

# The **co-operative** asset management

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Via e-mail to: [stewardshipcode@frc.org.uk](mailto:stewardshipcode@frc.org.uk)

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Dear Susannah,

## **Consultation on a Stewardship Code for Institutional Investors**

The Co-operative Asset Management (“TCAM”) welcomes the opportunity to respond to the FRC’s consultation on a Stewardship Code (“the Code”) for institutional investors. We have assets under management of £18.4 billion as at February 2010 and specialise in active management of UK equities and bonds.

We consider that sound corporate governance in the companies in which we invest is of central importance to create and sustain long-term shareholder value. We consider that it is the responsibility of institutional investors, such as ourselves, to act as owners of the companies in which they invest.

We have a long history of being a responsible investor, with our responsible shareholding policy being launched in 1999. Our approach to responsible investment fully integrates consideration of financial as well as ESG (environmental, social and governance) issues when selecting companies for investment and is applied across all the funds and mandates we manage on behalf of retail, pension fund and life company clients.

We regularly use our influence as shareholders, through engagement and dialogue as well as the use of voting rights. We use these tools to maximise the value of our investments. We also use them in line with ethical engagement policies, as determined by consultation with our customers. Backed by this Ethical Engagement Policy, sometimes we engage on issues consistent with assisting directors to undertake their duties as outlined in Section 172 of The Companies Act 2006 to “have regard to” environmental or social factors while acting “to promote the success of the company for the benefit of its members as a whole”.

We welcome the introduction of the Code for institutional investors.

## **TCAM's comments on specific matters on which views are invited**

### Section 1: Introduction

We believe that the FRC should accept oversight of the Code in its current form, subject to the comments expressed in this submission.

### Section 2: Background and Recent Developments

#### *Insight on lessons which may be learned from experience outside the UK*

Whilst we feel foreign investors will have more insightful input into this question we are mindful of increased globalisation of the ownership of major listed companies and capital markets in general.

Responsible investment practices centring on, for instance, corporate governance are widely perceived to be amongst the most advanced in the world in the UK. We believe that if the Code is perceived to be successfully implemented here it could become a beacon for best practice internationally. We feel that, once the Code is implemented, the FRC will be well placed to share its experiences to other countries and markets.

An idea which has been mooted is the suggestion that the FRC, together with other international regulators, move to set up a Global Institutional Investor Stewardship Committee. We are strongly in favour of this idea to enable dialogue between different cultures and different ways of thinking that is mutually productive and beneficial for global investors. We consider that political momentum behind the setting up of any such committee would be imperative for this idea to move forward.

### Section 3: The Coverage of the Code

*The FRC would encourage all UK institutional investors to apply and report on the Code regardless of whether or not they are subject to mandatory requirements, and would welcome views on whether there are any barriers or other reasons that would prevent or discourage them from doing so.*

We are in favour of investors acting as stewards of the companies in which they invest and, to this end, have been active in engaging with our investee companies on a long standing basis. We have also collaborated with other investors to increase the efficiency of engagement and believe collaborative efforts will increase in the investment community with the help of the recent clarifying guidance from the Takeover Panel and the FSA relating to the meaning of concert parties.

We report on our responsible investment activities on a quarterly, annual and rolling basis in respect of engagement and voting activities. This also helps in our application of Principle 6 of the UN Principles of Responsible Investment (PRI), to which we are signatories. As such, we feel we could integrate reporting on adherence with the Code into our current structures in a straightforward manner.

We believe the PRI could be a useful port of call to increase uptake and support of the principles globally.

We do not feel there are any barriers, from our point of view, that would prevent us from applying and reporting on the Code.

*Should agents such as voting services agencies and investment consultants be encouraged to commit to the spirit of the Code?*

We agree that such agencies should be encouraged to commit to the spirit of the Code. The majority of UK asset managers use some form of voting service agency, often retaining the services of several. We believe these advisory services, which often call for transparency and accountability from listed companies and institutional investors, should demonstrate the same themselves.

For instance, RiskMetric's RREV Proxy Advisory Services reports highlight the scope of engagement that it has had with a particular company as well as detailing who initiated the dialogue and the outcome. In addition, Pensions Investment Research Consultants (PIRC) have published principles of best practice for proxy voting and corporate governance advisers which are intended to be used as a framework for responsible behavior for voting advisory services

*The FRC would also be interested to hear from investors who operate on a cross-border basis about any potential conflicts which might arise between requirements or codes in place in other countries and the proposed Code.*

We are not aware of any such conflicts for investors who operate on a cross-border basis.

#### Section 4: The Content of the Code

*Does the Code cover the relevant responsibilities for engagement of institutional investors to beneficial owners whose interests they represent?*

The Code sets out best practice for institutional investors stewardship of investee companies. As such we feel it does cover the relevant responsibilities.

We believe we have a responsibility to act as a part-owner in the companies we invest in on behalf of our clients. In order to give our clients a say in our responsible investment we apply and operate The Co-operative Ethical Engagement Policy on behalf of The Co-operative Insurance. This policy was launched in 2005 following a substantial consultation with our retail clients, over 44,000 of whom took the opportunity to voice their views.

*Does the Code cover all responsibilities to UK listed companies?*

We believe it does.

*Are the respective responsibilities of the different parts of the investment chain sufficiently clear and appropriate.*

We consider the Code itself is clear. However, the voting chain is somewhat opaque and whilst we are pleased to assist with voting audits from the likes of Georgeson we feel there is much more work to be done in this area to improve transparency and accountability. There have been occasions where it would appear that votes cast have not made it through to the registrar of the company in question and the insight the various members of the voting chain have been able to offer on the reasons behind this have been limited.

*Does the Code strike the right balance between the need to avoid over-specification and the need for it to be effective with an appropriate degree of transparency?*

Yes

*Are there any parts of the Code where further guidance is needed?*

We would welcome clarification as to whether the Code only applies to UK listed securities e.g. ADRs of UK plcs. Furthermore, we would welcome discussion around how the Code fits in with the Corporate Governance Code and the extent to which the Code relates to socially responsible investment as a stewardship principle. Specifically, how environmental, social and governance concerns are integrated into the investment process and how this sits within the Code.

*Does the Code adequately cover Section E of the Combined Code?*

As mentioned in our response to the Corporate Governance Code consultation we are happy for section E to remain in the Combined Code/ Corporate Governance Code. We have no concerns with duplicating recommendations for institutional shareholders in both the Code and the Corporate Governance Code, given the importance we place on institutional investors acting as owners.

#### Section 5: Reporting, Monitoring and Review

*What information should institutional investors disclose publicly and what should they report to clients?*

We believe the investment management agreements should specifically detail the level of stewardship reporting arrangements between the client and the institutional investor.

Whilst we support the “comply and explain” approach we are also strongly in favour of mandatory vote disclosure of voting records by institutional investors. In 2002, we became the first institutional investor in the UK to publish our voting record on our website. We also disclose the rationale behind our voting directions on our website. Furthermore, our voting policy is available online and we have extensive coverage of our UK and global voting records in The Co-operative Group’s Sustainability Report. Given the levels of transparency that are asked of listed companies, institutional investors should adhere to the same principles.

Our quarterly and annual reports detail our environmental, social and governance engagements as well as the integration of these considerations into our investment processes.

We do not consider any of the above disclosure to be onerous for institutional investors of any size. As signatories to the PRI we also complete the annual survey which covers the integration of ESG into our investment structure including engagement, collaborations with other investors, voting activity and other stewardship activities.

*What arrangements should be put in place to monitor how institutional investors apply and report against the Code?*

We welcome the provision of an independent audit review on engagement and voting processes. However, we are mindful that engagement is predominantly qualitative, and that outcomes are not always tangible. In some cases the methods of engagement may not lend themselves to the audit framework, for instance, face to face meetings. We are not currently subject to the AAF framework on our voting and engagement processes. We also feel that the AAF01/06 reporting requirements may deter other investors from committing to the Code.

*What arrangements should monitor how institutional investors apply and report against the Code?*

We have been respondents to the IMA's engagement survey for a number of years and find it a credible and useful mechanism for the industry to use to monitor adherence to the ISC Statement of Principles. The 2008 survey showed that 32 asset managers who are members of the IMA, including ourselves, already actively engage, vote their shares and publish their votes.

In addition, we have been respondents to the PRI Reporting and Assessment Tool for the last two years and find it a useful benchmarking exercise.

Given the resources required to populate these surveys we would view very positively any efforts to coordinate and streamline the disclosure requirements of the above with any potential FRC monitoring survey.

*How should the content and operation of the Code be reviewed?*

We suggest linking this in with the formal reviews of the UK Corporate Governance Code after an initial bedding in period.

*Other comments:*

We frequently attend the Annual General Meetings (AGM) of the UK companies in which we invest and are aware that shareholder attendance, in most cases, is on the wane. Recently, Intel Inc. made movements towards doing away with its physical AGM in lieu of a web based event. We urged Intel to consider accompanying this virtual meeting with a physical meeting so as not to weaken shareholders' ability to address management. To this end, we believe attendance at AGMs is useful when exercising stewardship and would welcome mention of this in the Code.

As responsible investors we welcome the proposed Code and remain at your disposal to discuss any or all of the above.

Yours sincerely,



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