



16 April 2010

Susannah Haan
Adviser to the Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

Subject: Response to consultation on a Stewardship Code for institutional investors

Dear Susannah

Thank-you for the opportunity to respond to this consultation.

Mercer is an active proponent of Responsible Investment (RI). RI, in its broadest sense, is the lengthening of the investment horizon and the integration of extra financial factors such as Environmental, Social and Governance (ESG) issues into the investment decision making process. Mercer believes that RI is driven by financial value, not ethical values; that it can enhance long-term portfolio returns across all asset classes; identify risk; and is fundamentally aligned with fiduciary duty. Active ownership is an integral part of RI, helping the realisation of long term shareholder value through voting and engagement activities. As such, we support the development of a unified and rigorous Stewardship Code in the UK.

As a member of UKSIF – the Sustainable Investment and Finance Association, we have reviewed their draft response to the consultation and participated in the round table discussion of it. We support the very detailed and thorough response they have provided to you.

In addition, we would like to make the following general points:

- A robust and effective Stewardship Code should be specific and relevant so that the parties to whom it applies are in no doubt as to whether and how they should comply. This means that if you do extend the reach of the Code to include the agents of asset owners and asset managers (such as consultants and research agencies as you have proposed in the draft), you may need to separately identify what actions each group are expected to take to comply with the Code.
- In the course of our work with asset owners and asset managers we have seen confusion over which guidelines or regulations trustees and managers should adhere to. We

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strongly encourage the FRC to work with other organisations such as the Principles for Responsible Investment to ensure that the messaging around active ownership is consistent and the reporting does not place additional burden on investors.

- A regulatory requirement, such as your proposal that the FSA require authorised asset managers to disclose whether and how they commit to the Code, would help the Code gain traction more quickly than an entirely voluntary code.
- Monitoring of organisations that claim compliance with the Code will be essential to protect its integrity. We believe there should be minimum requirements such as disclosure of an active ownership policy, and publication of the voting and engagement record. However we also note that engagement can be a lengthy and expensive process and may not always be relevant to all investors, so a monitoring and assessment process should take into account the size and resources of an institution.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Danyelle Guyatt', with a long horizontal flourish extending to the right.

Rachel Whittaker and Danyelle Guyatt
Responsible Investment
Mercer