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Consultation on revisions to the UK Stewardship Code

Response by F&C Investments

F&C Investments (F&C) is a London-based global asset management firm with institutional and retail clients collectively representing over £165.7 billion of assets[1]. F&C manages funds on behalf of insurance companies, institutional investors, pension funds and private individuals. Through its Responsible Engagement Overlay service (reo®), F&C has also been mandated to engage and vote on behalf of a number of pension funds whose money is managed by other parties.

As an active investor for many years, F&C has been supportive of the development of a Stewardship Code in the UK. We believe that robust engagement and voting by institutional investors is critical to the health of financial markets and long-term value creation. This is particularly true in the principles-based, "comply or explain" regulatory regime, whose effectiveness requires active involvement by investors to engage with companies and monitor their corporate governance practices. In this context, we welcome the opportunity to respond to the Financial Reporting Council's (FRC) Consultation on revisions to the UK Stewardship Code.

F&C believes that overall the Code is well structured, balanced and clear. We support most of the proposed revisions, but would like to provide further comments on a number of proposals that we believe require further consideration.

In particular, F&C welcomes the following changes below:

1) Greater clarity on the aim and definition of stewardship
2) Clarification of the respective roles and responsibilities of asset owners and managers;
3) Invitation for UK institutions to use their best efforts to apply the principles of the Code to overseas equity holdings
4) Invitation to disclose application of a stewardship approach to other asset classes, including corporate debt

[1] F&C Management Limited is a subsidiary of F&C Asset Management plc. F&C Asset Management plc is the listed holding company of the F&C Group, a global asset management group based in London, United Kingdom, with offices in Amsterdam, Boston, Dublin, Edinburgh, Frankfurt, Geneva, Lisbon and Paris. As at 31st of March 2012, F&C Management directly managed £101.8 billion in assets. In addition, F&C has been mandated to vote and/or engage in dialogue on behalf of a further 19 investment institutions with assets, including equities and corporate bonds, totalling £63.9 billion.

5) Changes to provisions on the conflict of interest policy to encourage more informative disclosure.

Issues for comment

Stewardship and the Code

We believe that the proposed revisions provide a good description of stewardship and its purpose. However, we believe that the wording "remuneration and corporate governance" in paragraph 4 (and in Principle 1) puts undue emphasis on executive remuneration over other corporate governance matters. We suggest that it be changed to "corporate governance, including remuneration". Furthermore, we believe that it would be useful to add specific reference to risks arising from social and environmental matters under paragraph 4, in line with the description under Principle 4.

Application of the Code

We suggest including "engagement overlay providers" among service providers in paragraph 2.

We suggest deleting the word "spirit" from "Asset owners' adherence to the spirit of the Code may include" in paragraph 7 as it suggests different level of expectations under the Code from asset owners and asset managers.

We agree with some other respondents (e.g. ABI) that further guidance for asset owners on the ways they can apply the Code's principles would be useful, particularly when asset owners seek to hold their managers to account for their stewardship activities. In this context, it would be helpful if fund management mandates reflected and valued the extent to which stewardship services are included as part of the mandate. Increasing the demand for stewardship services by asset owners will enhance the supply and quality of stewardship services provided by asset managers.

We welcome the invitation under paragraph 10 to apply the principles of the Code to overseas equity holdings. Admittedly, this may be outside the FRC's purview and may fundamentally impact (or expand) institutional investors' stewardship activities thus presenting a significantly greater challenge. However, we strongly believe that where institutional investors hold or manage international portfolios, their stewardship activities should aim at enhancing and protecting value of those portfolios and will, therefore, have to be extended to cover overseas issuers. At the same time, we would like to point out in respect of Principle 3 that overseas companies, particularly in markets with prevailing controlled ownership structures, are unlikely to adhere to the UK Corporate Governance Code and that additional reference to local codes of best practice may be appropriate.

With respect to the scope of stewardship activities applied to different funds and products (paragraph 11), F&C believes that a detailed disclosure of this kind would be impractical for larger asset managers. We suggest that the Code encourage explanation of different approaches implemented by an asset manager, including whether stewardship approach is only applied to some but not all funds and providing examples of the products covered by stewardship activities.

F&C has long advocated broadening the Code application to corporate debt, because many institutional investors invest in both corporate bonds and equities, and, therefore, as universal owners, should have an interest in stewardship across a broad range of asset classes. We are, therefore, pleased to see that the Code invites institutional investors to disclose whether they adopt a stewardship approach with regard to other asset classes. F&C also believes that the FRC should consider whether it should strengthen this provision as a part of its next review of the Code.

Principle 2

We are aware of concerns raised by the IMA and the ABI that the proposed change of wording from "robust" to "effective" may lead to the increase in the burden of proof required to demonstrate compliance under the AAF 01/06 standard. We would strongly encourage the FRC to explore this issue further before making changes to the Code.

Principle 4

We believe it would be helpful to add "voting against directors standing for re-election" as a way of escalating investors' action if companies do not respond constructively to engagement. Furthermore, we suggest combining bullet points one and three given that initial discussions are likely to take place with the chairman or senior independent director.

For any further comments and questions please contact:

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