

## Email

28 March 2019

I am writing in response to your consultation on the proposed changes to the Stewardship Code.

I have been involved in investment management for over twenty years, among other things as Director General of the AIC, CEO of the IA and Marketing Director of Fleming Investment Trust Management Ltd. I am now a consultant, adviser and Independent Director of a number of investment businesses.

Firstly, I would like to congratulate you on this consultation. It hits a number of high notes that are of vital importance. The most important of which is to raise the bar for Stewardship. When it comes to Stewardship, there is almost no point in simply going through the motions. The current code has given scope for those who adopt this lukewarm approach to enjoy the status of being a good Steward.

A simple in or out code with a high bar is the way to remove this risk. Firms will decide if they can meet the required standard and if not, they may in due course find that not doing so creates competitive disadvantages and hence this proposed code may start to move the market in a way that really makes a difference.

My principal comment would be that the FRC should resist any pressure to water down the definition of the purpose of Stewardship. If anything, I think it could be strengthened.

Some respondents may argue that the proposed definition creates a conflict with fiduciary responsibility. It does not. This argument reflects a narrow, short-term view of the role of an investment manager. I do not believe that a court could possibly reach the conclusion that a fiduciary was acting unreasonably in following the expected behaviours suggested by the definition.

The rationale for this is that it is wholly reasonable for a fiduciary to consider the time horizon of the average investor (the end-investor or beneficiary). This is likely to be measured in decades, not months. As such, there is every prospect that risks run by issuers may affect them individually through reputational damage, regulatory action or other loss of license from society to do business. But, over these time horizons, it is possible and perhaps highly likely that risks arising from climate change, inequality or environmental degradation might have consequences that are catastrophic to the financial values of issuers.

As such it must be at the very least reasonable fiduciary conduct for an investment manager to both consider these risks and to use all the powers at their disposal to mitigate them. In fact, I would argue that there is a greater risk of being found to have acted in breach of fiduciary obligations by failing to do so.

My suggestion for the definition of Stewardship would be to start by defining the purpose of investment and investment management with Stewardship being the key means by which the purpose of investment management can be fulfilled.

So:

**The purpose of investment is sustainable value [wealth] creation. Therefore the purpose of investment management is to invest investors' capital into issuers with the objective that these investments create value [wealth] sustainably.**

**Stewardship is the key activity through which investment managers can contribute to the likelihood that investments succeed in creating value [wealth] sustainably and mitigate the risks that they fail. It is the means by which the institutional investment community creates sustainable value for investors, the economy and society. Stewardship activities include monitoring assets and service providers, engaging issuers and holding them to account on material issues and singly or collectively using all the powers available to them, if necessary, to ensure that risks to long-term value [wealth creation] are mitigated, and publicly reporting on the outcomes of these activities.**

As you will note, I suggest that the definition of the people on whose behalf investment managers manage investments is changed from beneficiaries to investors. The word beneficiaries is both a legacy from the days of DC pension schemes, which are in decline and a form of legal jargon that will have no meaning to many people and sound like the subject of will to many others. The term investor, signifies something more active and wholesome and may signal a path for investors to become more active themselves.

With best wishes,

Daniel Godfrey.