Email

27 March 2019

Lindsell Train has prepared the following comments in response to the 2019 Stewardship Code consultation. Lindsell Train supports the notion that better engagement between investors and the companies in which they are invested will improve long-term returns for the ultimate beneficiaries. Furthermore, Lindsell Train recognises the fundamental role played by strong and effective corporate governance practices and believes that companies that observe high standards of governance should increase their chances of survivability and success. As stewards of capital we respect the responsibility placed on us, by our clients, to improve the allocation of capital in the economy to create sustainable value for the betterment of society.

At large we agree with the proposed changes to the Code, but would like to voice the following suggestions and/or concerns:

1. <u>Recognising the importance of environmental, social and governance (ESG) issues</u>: whilst we recognise the importance of ESG we question the specific emphasis that the code intends to place on climate change. We have concerns that highlighting this one (albeit important) part of ESG will detract from the other ESG criteria that might be considered by many investors of equal relevance. Furthermore, asset owners and managers that do not prioritise climate change thinking and actions, but who can otherwise demonstrate stewardship excellence, may be unjustly penalised.

2. <u>More rigorous reporting requirements</u>: in the absence of any specified reporting format or template, we would request that the FRC produces detailed reporting guidelines including an indication of the level (including length) of reporting that the FRC is expecting. We would welcome a reporting reprieve until 2021, by which point signatories will be in a position to report on a year's worth of activities. Furthermore, with regards to the matter of publicly disclosing reporting, we would urge that the FRC consider this requirement in the context of information sensitivity and confidentiality. In Lindsell Train's case, for example, we invest with the expectation of maintaining a holding in a company for many years and would be fearful of undermining the relationship of trust that exists between the asset manager and company management. We envision that it will not always be possible to publicly disclose the reasons for how and why we vote, if it is not in the best interest of our clients. The same applies to the public reporting of our engagement activity which, whilst we are happy to share this on a confidential basis with our clients, may jeopardise relations with management should we be forced to make public conversations regarding sensitive subject matter, particularly if reporting without a significant time-lag.

3. <u>Tiering</u>: whilst we support the concept of tiering, we would encourage the FRC to implement a tiering transition period in order to allow investors and asset owners to assess best practice and implement any necessary changes to their approach and/or reporting, following their submission of their initial revised Statement. Overall we support the view that the FRC should be focusing on the quality of stewardship activities and outcomes as opposed to the quality of description of the policy.

4. <u>Stewardship/ESG overlap</u>: finally, we think that consideration should be given as to how to better streamline managers' obligations under the Stewardship Code and various ESG initiatives (e.g. PRI, Responsible Investment policies etc) in order to

help both managers' and asset owners' understanding of where stewardship overlaps with ESG and to prevent overly burdensome duplication.

Lindsell Train appreciates the opportunity it has been given to present its thoughts and looks forward to collaborating further, as necessary, with the FRC.

Best wishes,

Jane Orr