D.F. KING

Corporate Governance and Stewardship
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Proposed Revision to the UK Stewardship Code

Thank you for giving D.F. King Ltd the opportunity to participate in this consultation on the UK Stewardship Code. As a leading proxy solicitation firm, D.F. King is a constituent of the corporate ecosystem which has sight of two distinct sides of the stewardship chain: the company and the investor. We have chosen to respond to the consultation by providing our overview on the topic of stewardship based on observations we make in the role of a proxy solicitation and corporate governance advisory provider.

About D.F. King Ltd

Founded in 1942, D.F. King is a global expert in stakeholder engagement, having serviced more than 1,000 clients in 32 countries. We provide comprehensive advisory and execution services for equity and debt transactions.

In proxy solicitation, D.F. King is renowned worldwide for securing shareholder support in corporate actions involving shares. We specialise in designing, organising and executing campaigns for Annual General Meetings, Extraordinary General Meetings, takeovers, proxy defences, shareholder activism and corporate governance advisory. In the last year, our group have supported well in excess of 2,500 issuer meetings and transactions.

D.F. King Ltd is a part of the Link Group and operates within its Corporate Markets division, which includes specialist share registration & share plans, investor relations and company secretarial services, known in the market as Link Market Services, Orient Capital and Company Matter respectively. The businesses work together to support and represent global listed issuers from locations in the UK, Australia, Germany, South Africa, Hong Kong, India, New Zealand, the Middle East and Papua New Guinea.

Overview

The UK benefits from being a global leader in corporate governance standards and investor stewardship. In addition to this, the UK remains a highly desirable place to do business, with many innovative and entrepreneurial companies starting out here or moving to our shores. Much of this is a result of the inherent flexibility that our regulatory environment allows for; corporate constituents are able to implement standards 'their way'.

Observations

In this context, D.F. King Ltd have several interlinked observations to make that are worth voicing in light of the redrafting of the Stewardship Code. They arise from contradictions that exist within our corporate ecosystem.

From the experience garnered from acting as an emissary between companies and their investors, direct engagement stands out as one of the most potent vehicles for effective stewardship. This allows a company to put across their 'story', explain the rationale behind its strategy and build a relationship with the shareholders invested in the company. For the investor this provides a unique insight from which to base their stewardship endeavours and allows them to build up an understanding of the 'why' as well as the 'how'.

Concerns

- An equal playing field

Despite this benefit and the willingness of many companies to undertake a serious amount of work to foster such engagement, we observe that for a variety of reasons this is sometimes not possible. A common observed response is that an investor has no current concerns or reason to engage and others, albeit a minority, view their stewardship role as a matter of submitting votes in line with an established set of voting principles rather than leading changes through dialogue and suggestions. We are not criticising either approach, however these challenges can often be linked to the capacity of an institution to oversee the volume of holdings they have. An understandable consequence of size perhaps but it does give rise to the question of whether stewardship should only be exercised in annually or only in times of concern.

- The perception and influence of Proxy Advisors

The rise of proxy advisory firms (such as ISS, Glass Lewis, etc) is in large part a 'makes sense' solution to the issue of capacity at institutional investors. These firms are able to undertake research, form recommendations and even instigate engagement before reporting to their clients across the market. The end client, the investor, can then use this information to help inform their voting decisions on a company and it can contribute to their understanding of the company. This does however place a huge amount of importance on the role played by a small number of players, who ironically themselves are not shareholders. It represents, if you will, a bottleneck where information on a vast and diverse range of companies is processed by a handful of vendors who then distribute their analysis and interpretation of this information on to an equally vast and diverse range of decision-making investors.

It therefore goes without saying that these firms play a very significant role within the investment chain whilst not actually sitting within it. Something which we observe on a regular basis is the importance placed, by stakeholders throughout the corporate ecosystem, on how these firms perceive a company in relation to their general corporate governance policies.

Furthermore, and of more concern, is the influence this perception can have on companies themselves. It is certainly desirable to raise corporate governance standards across the market and these firms along with their investor-clients have contributed to great strides being made on everything from board diversity to greater disclosure around pay. That being said we are seeing a homogenisation of governance that risks the flexibility that the code allows and which benefits the companies that sit at the heart of this. Finally, instances where companies are making alterations which effect the core strategy or have material impacts for the sole aim of avoiding confrontation with the proxy advisor's is of most concern. This in large part arises once again where a square peg is judged against a round hole and, whereas an investor has capital at risk when opining on such decisions the same is not true of the proxy advisors. Greater flexibility when passing judgement on issues beyond pure governance is desirable at these organisations so as to avoid such situations.

- Positive evolution

It would be wrong to suggest that progress has not been made and many of the leading proxy advisory firms have and continue to take steps address companies concerns. That being said we do believe that there should be a greater emphasis on the need for companies to be given the opportunity to engage with proxy advisors much earlier on in the report process, to examine the draft report and also to be given ample time to respond to inaccuracies. Furthermore, we note the positive development at one of the larger proxy advisor firms to provide a platform for companies to issue a rebuttal to their recommendations and we would encourage others to follow their lead. A recommendation or vote against a resolution at a meeting, when warranted, is a vital check on a company and its activities. That being said a great deal of the time things are less black and white, furthermore the huge disruption which can be caused by a resolution not being approved means it is vital that this occurs for the right reasons.

- With a sting in the tail…

The contradiction which exists between the demand for stewardship and the resources deployed to fulfil this means that proxy advisory firms and the research they produce are an important component of the corporate ecosystem. However, this should not come at the detriment of companies and their ability to conduct themselves in a way best suited to the needs of the company.

Conclusion

We have written this response from the point of view of working day in day out with companies and seeing the conflicting pressures they must manage alongside the very real enthusiasm to work with their investors and wider stakeholders to develop their corporate governance capital in the interest of transparent engagement.

The Stewardship Code does much to encourage such engagement and the changes put forth largely represent a positive development of this role. D.F. King has provided comment with the intention of ensuring the FRC has sight of the market from where we sit working closely alongside issuers to support their engagement and is aware of some of the pressure points we see.

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We hope you have found our comments helpful. If you require further information about our views, please do get in touch.

Kind regards,

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