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Subject: UK Stewardship Code Consultation

Dear FRC Representative

On behalf of Mercer I welcome the opportunity to respond to the UK Stewardship Code consultation.

Our detailed comments are attached in the appendix to this letter.

We would welcome the opportunity to discuss our response further with you if that would be helpful.

Yours sincerely

[by email]

Hill Gaston

APPENDIX

Question
Q1. Do the proposed Sections cover the core areas of stewardship responsibility? Please indicate what, if any, core stewardship responsibilities should be added or strengthened in the proposed Principles and Provisions. In principle we agree that they cover the relevant areas. However, in our view, the areas that could be strengthened are in relation to clarifying Provisions and providing guidance on stewardship responsibilities relating to environmental, including climate change, and social factors. Many signatories continue to provide vague statements around how they expect to vote and engage on these issues (governance topics tend to be much clearer). We believe it should be more explicit in signatories' stewardship policies how they expect to undertake voting and engagement on environmental and social topics. As the scope of what is covered by the proposed Code has expanded, signatories should be encouraged to ensure that their responses are clearly relevant to stewardship activities, and demonstrate the role stewardship plays particularly in areas such as investment decision making and allocation.
Q2. Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code? Mercer supports high expectations being set for all signatories. However, the bar should not be set so high that Asset Owners, wishing to exercise their stewardship responsibilities to the best of their abilities, feel that signatory status is only feasible for the largest and best resourced Asset Owners. This point is relevant for how signatories may be tiered and the need to welcome, assist and empower Asset Owners looking to improve their practices in this area. If the requirements to become a signatory are perceived as too onerous, there is a danger that signatories, particularly Asset Owners, may struggle to meet them to a sufficient standard.
Q3. Do you support 'apply and explain' for the Principles and 'comply or explain' for the Provisions? Mercer supports these approaches. Signatories should be encouraged to avoid a "tick box" approach and comply / apply / explain their approaches against the Principles and Provisions as relevant.
Q4. How could the Guidance best support the Principles and Provisions? What else should be included? Mercer believes the best way for the Guidance to support the Principles and Provisions is to maintain a high level overview, as noted, on the areas that should be given consideration. We note the evolving approaches to stewardship and believe the Guidance section generally provides a sufficient level of information for participants to understand how they should approach engagement.

Q5. Do you support the proposed approach to introduce an annual Activities and Outcomes Report? If so, what should signatories be expected to include in the report to enable the FRC to identify stewardship effectiveness? In principle Mercer broadly supports the proposed approach to introduce the Annual Activities and Outcomes report. However, Mercer believes more clarification is required around how this is expected to be evaluated given the evolving nature of stewardship. Under the Proposed revisions, we question the following points: - Under points 58 and 66 (Annual Activities and Outcomes Report), while Mercer agrees in principle that signatories should report how they have implemented the Provisions and undertaken stewardship activities, we would like to better understand on what basis/standards outcomes are expected to be evaluated. Further, as the expectations of the Code increase in scope over time the FRC should seek to avoid assessments becoming too complex, resource intensive and difficult, and instead focus on ensuring comparability between signatories. - Under point 60, Mercer would like to better understand how the FRC proposes to assess signatories based on the quality of reporting as well as the effectiveness of their stewardship activities given the wide ranging approaches, and the challenges in assessing stewardship. On this point, we do believe one method of effective stewardship assessment would be to analyse how the signatory's voting actions are linked to their engagements and existing policies. Mercer would support the ability for signatories sitting across different signatory categories (i.e. Asset Manager and Service Provider) to continue to be able to have separate Policy and Practice Statements and Annual Activities and Outcomes reports. We believe this would help Asset Owners and other market participants to better assess and compare approaches to stewardship.
Q6. Do you agree with the proposed schedule for implementation of the 2019 Code and requirements to provide a Policy and Practice Statement, and an annual Activities and Outcomes Report? Yes, we support the proposed schedule.
Q7. Do the proposed revisions to the Code and reporting requirements address the Kingman Review recommendations? Does the FRC require further powers to make the Code effective and, if so, what should those be? In principle yes, the proposed revisions to the Code do address the Kingman Review recommendations. However, we would like to better understand how the FRC is expecting to assess the reporting and outcomes of signatories, and to determine what best practice is. How will the FRC define what high (and low) standards of reporting are (as per point 72)? We agree that the focus of the Code should be on outcomes and effectiveness and this should be more explicitly highlighted in the Annual Activities and Outcomes Report. We believe this can be achieved through a clear link between voting and engagement policy and actual outcomes; with overall clearer rationales setting out how signatories have voted in a certain manner.

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Q8. Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?
Yes, in our view, disclosing the organisational purpose, values, strategy and culture can showcase the alignment that the firm has around its stewardship approach.
Q9. The draft 2019 Code incorporates stewardship beyond listed equity. Should the Provisions and Guidance be further expanded to better reflect other asset classes? If so, please indicate how?
Stewardship within listed equities is the place to start and a minimum requirement, but we note that engagement in other asset classes (such as fixed income) continues to evolve and we believe signatories may already be or become better placed to determine how best to reflect stewardship on behalf of their respective asset classes. Further to the points raised in our response to Q7, this may be a good area for the FRC to highlight evolving or best stewardship practice beyond listed equities.
Q10. Does the proposed Provision 1 provide sufficient transparency to clients and beneficiaries as to how stewardship practices may differ across funds? Should signatories be expected to list the extent to which the stewardship approach applies against all funds?
We believe the provision may provide sufficient transparency on how stewardship may differ across funds. In our view, a high level understanding of the extent to which stewardship activities are applied to all funds is possible if individual stewardship practices on every underlying fund are disclosed. However, it remains unclear how managers with a large number of funds and stewardship approaches will provide this information in a concise and comparable format. At the same time, we believe having an overall policy and approach is beneficial for articulating a firm-wide philosophy and generating an understanding of the consistency of approach to stewardship, where it exists, across all funds and asset classes. This can complement fund specific disclosures. In our view, for many Asset Owners obtaining independent assurance on their stewardship activities, while arguably best practice, would generally be too resource intensive.
Q11. Is it appropriate to ask asset owners and asset managers to disclose their investment beliefs? Will this provide meaningful insight to beneficiaries, clients or prospective clients?
Yes, Mercer would support this. However, we note that while this may be feasible across the majority of investment management firms, there are many Asset Manager signatories who do not necessarily have one overarching investment philosophy and we would like to better understand how the FRC would expect them to disclose this.
Q12. Does Section 3 set a sufficiently high expectation on signatories to monitor the agents that operate on their behalf?
Yes, in principle we support the level of expectation. However, Asset Owners in particular may benefit from further high level guidance on how best to actively monitor Asset Managers and Service Providers.

Q13. Do you support the Code's use of 'collaborative engagement' rather than the term 'collective engagement'? If not, please explain your reasons. Yes, Mercer supports the use of this term.
Q14. Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be? Yes, Mercer believes it is sometimes relevant to escalate concerns about an investee company in confidence. In our experience, many firms engage with companies on a private basis and believe there are many and significant benefits to maintaining a level of confidence that can otherwise be damaged if engagements are made public. It might be helpful if some guidance was given as to how this might be done. However, there are also instances where investment managers may hide behind this method of engagement to avoid deploying further resources necessary to collaborate with other stakeholders, and this can be detrimental. In these circumstances it is often useful to ask the investment manager under which circumstances they would make engagement public and whether they have ever done this in practice.
Q15. Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity? We do not believe this is necessary at the present time. Given the lack of voting rights for some other asset classes, we believe there is scope for a broad range of approaches in how signatories demonstrate effective stewardship across asset classes, and would allow a degree of flexibility to assess how this is done.
Q16. Do the Service Provider Principles and Provisions set sufficiently high expectations of practice and reporting? How else could the Code encourage accurate and high-quality service provision where issues currently exist? In principle Mercer supports the level of expectations of practice and reporting. However, we recognise that given the variety of Service Provider services it is a challenge to provide more detailed Guidance. One potential way to further illuminate what services Service Providers provide is to request they make clear the activities covered as part of their standard offering and those that can be undertaken at client request.