Introduction – We are pleased to see that emphasis is being placed on activities and outcomes instead of Policies and Procedures, however, as an asset manager our principal objective must always be to protect our beneficiaries assets and manage them to meet their objectives and in line with their requirements.

We are also concerned that insufficient importance has been given to the weighting of material ESG factors. The proposed code has a number of areas where the terminology is mixed and could lead to a tick box approach of asking every investment to consider every ESG issue, which is a waste of time for both parties.

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.

We agree that the key aspects are covered i.e. investment approach, active monitoring of investments, clear and constructive engagement and exercising rights and responsibilities attached to those investments. However, we believe the definition these activities are based on is flawed. As we articulated at our meeting in Edinburgh, we believe the primacy of caretaking our clients assets should be recognised. Through the good stewardship of these assets, there may be benefit to wider society and the economy but that is not our main objective. In addition, as the definition stands it would appear that capital allocation is of more importance than oversight of those assets. This is clearly not the case.

Finally, we believe the second sentence of the definition restricts it too closely with the role of the asset manager rather than the asset owner of a service provider, so it should be deleted. We would not advocate the use of separate codes for the roles of asset owners, asset managers and service providers but the code does need to be reasonable in its expectations of each of these players in the investment chain.

Q2. Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code?

As mentioned above, we believe the code should set reasonable expectations for the responsibilities of all the participants in the investment chain.

It is in our best interests as asset managers to encourage interest by the asset owners in stewardship. However, we feel there are a few areas where the roles are confused, including the definition. Activities such as engagement with issuers and holding issuers to account are usually delegated to the asset manager. In including this in the responsibilities there may be an unintended consequence of discouraging asset owners to become signatories as they may not have the resource or expertise to fulfil these duties. In addition, we feel that the code is still prescriptive in many areas of the policy and procedures reporting but not in the activities and outcomes. While we understand the desire to allow the market to settle on best practice, some guidance at the beginning could be beneficial. Signatories who wish to do more will be free to do so and a standard will be set eventually.

Q3. Do you support ‘apply and explain’ for the Principles and ‘comply or explain’ for the Provisions?

In principle, we are supportive however, as we have highlighted above, the provisions need to be applicable to the part of the investment chain that the participant is involved in.

Q4. How could the Guidance best support the Principles and Provisions? What else should be included?

There could be greater clarity between what is required for the Shareholder Rights Directive and which exceed those requirements. However, as stated above, we would like greater guidance on what is expected of the activities and outcome report.

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?

Yes, we believe a shift in emphasis to the activities behind the policies is long overdue. However, as signatories we need to understand on what basis the FRC or AGRA will be judging these reports. We realise that everyone undertakes stewardship in slightly different ways, but more guidance is needed.
Our difficulty may arise as we have a number of different strategies, each with their own objective and timeframe. What is considered an outcome for one, may not be relevant for another. Preferably we would like to produce only one activities and outcome report, but at the moment we would need clarity on whether that is acceptable.

In addition, we need a stronger definition of what an outcome is considered to be. There may be cases where something seemingly insignificant, would be considered an achievement when framed in the context of past experience of the company. We would also like to understand how specific our reporting needs to be. Some of our engagements with companies are candid, because there is a trust built up that the detail will not become public. Our ability to undertake this kind of engagement may be jeopardised if we are obliged to publicly report in detail.

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?

We have no issues with the timeframe.

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?

The question needs to be asked whether the FRC/AGRA are right to “judge” these disclosures at all in the sense of tiering them. Surely it is up to our clients to determine whether these disclosures meet their requirements. There is a role for the regulatory body to ensure signatories are reflecting their policies in the activities and outcomes report but there seems no need to have greater powers other than the ability to remove signatories if they are no longer fulfilling their duties.

Q8. Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?

We have no issue with this, however would appreciate further guidance on how we are expected to include our different strategies into the reporting framework.

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?

We agree that the inclusion of other asset classes is a positive. This will help to ensure consistent messaging across different asset classes. However, there needs to be a recognition that stewardship will mean different things for different asset classes e.g. Equity has the responsibility of voting rights and the ability to escalate concerns are easier for equity holders, while bond holders would be more likely to consider these issue before investing, with oversight during investment.

It would be more reasonable to leave the explanation of how stewardship is addressed across the different asset classes as open ended rather than stipulating which activities need to be undertaken. This would mean that provision 27 is unnecessary. It is unclear why bonds were singled out and there was no equivalent provision for REITs or Property.

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?

As has been highlighted above, we would like clarification on what is expected. Currently we have a companywide policy on stewardship, and any exceptions caused by strategies or individual objectives are explained to clients by exception.

A disclosure having to list the extent to which the stewardship approach applies to differing funds would be onerous and be of limited benefit to anyone. It would be using valuable resources that would be better employed in fulfilling our stewardship responsibilities.
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?

In theory, investment strategy should reflect an organisational investment belief, the complication arises where there are individual clients who have differing beliefs.

Q12. Does Section 3 set a sufficiently high expectation on signatories to monitor the agents that operate on their behalf?

Yes, our only concern is the disclosure of “how and with what regularity they appraise appointed managers and service providers.” This may lead to appraisals being conducted more regularly than is necessary to demonstrate compliance with the code, which in turn could lead to a shorter term thinking than is appropriate for the time horizons of the beneficiaries.

Q13. Do you support the Code’s use of ‘collaborative engagement’ rather than the term ‘collective engagement’? If not, please explain your reasons.

We are not concerned with either term. We believe they are both widely understood to mean the same.

Q14. Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be?

It would be useful to have an avenue to express concerns for the rare occasions where a board is either unresponsive, or as non-holders we have identified issues. There would need to be assurance of confidentiality and trust, something that usually takes time to build.

Q15. Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity?

As noted above, stewardship means different things to different asset classes. We believe it may be more appropriate to ask how stewardship is addressed outside of listed equity rather than being more specific.

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?

As we mentioned earlier, we believe there needs to be greater care in ensuring the expectations are set at an appropriate level for the part of the investment chain they are in. Furthermore, it would appear that proxy advisors have been singled out for attention whereas Investment Consultants have an equal amount of responsibility for influencing decisions, just with the asset owners rather than the asset managers.