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Corporate Governance and Stewardship
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

First State Investments (UK) Limited

Finsbury Circus House
15 Finsbury Circus
London
EC2M 7EB

Tel +44 (0)20 7332 6500
Fax +44 (0)20 7332 6501
www.firststateinvestments.com

Dear Financial Reporting Council

FSI Stewardship Code Consultation to FRC Response

Thank you for sending the Proposed Revision to the UK Stewardship Code. We welcome the opportunity to review the changes and have attached our responses to the consultation questions in the paper.

Many thanks once again.

Best regards

Will Oulton
Global Head, Responsible Investment

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 support the direction of strengthening the code and believe that the following aspects of effective stewardship should be included;

- Purpose, Governance and Objectives
- Investment Approach
- Active Monitoring of Investee Companies
- Constructive Engagement and Clear Disclosure

We would caution about using the term "sustainable value" in the definition and replace it with "long term value". The definition should be clearer about the purpose of stewardship being to protect the interests of beneficiaries while contributing to societal, environmental and economic development. We would also suggest that the differences in stewardship approaches between asset managers and asset owners is made explicit and that reference is made to long termism in the context of the purpose of the code.

Q2. Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code?
Yes, we agree that high expectations should be set for stewardship in the UK market to maintain the UK's international reputation as a standard setter for best practice. This supports the long term interests of the beneficiaries and users of the UK financial market and raises standards of practice for the participants.
It is critical to ensure that the code version 2 does not suffer from becoming a minimum box ticking standard.

Q3. Do you support 'apply and explain' for the Principles and 'comply or explain' for the Provisions?
We support the flexibility that a high level principles approach brings. We also support the "apply or explain" approach to the Principles. "Comply or explain" is appropriate for the Provisions to allow for flexibility in the different investment approaches adopted by investors.

Q4. How could the Guidance best support the Principles and Provisions? What else should be included?
We believe that the guidance provides sufficient flexibility to allow differing approaches to be accommodated.

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?
We strongly support an annual outcomes and activity reporting requirement as we are in favour of greater accountability for the financial services industry. Reporting on engagement should include successes as well as failures to meet engagement objectives so the reporting does not become a marketing exercise. Signatories should also be required to indicate which engagements were direct and part of collaborations.
Asset owners and service providers should also be required to disclose how much weight they give to the quality of stewardship in their selection, retention and assessment of asset managers.

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 agree with 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?
The Kingman review was in our view correct that the "old" code resulted in a boilerplate approach to stewardship reporting. We fully support the tilt from policy and process to the effectiveness of outcomes for beneficiaries in the new code. The quality of the outcomes and activity reporting should be assessed and ranked by the FRC and when established it successor the Audit, Governance and Reporting Authority (AGRA). The effectiveness of stewardship of asset managers should be left to asset owners and their service providers to establish and there should be a provision in the code to ensure that this happens.
The asset owners should also be required to make their assessment of the effectiveness of their chosen manager's stewardship activities available to their scheme beneficiaries.

Q8. Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?
We fully support this requirement however we do not believe that "qualifications" for the effective execution of stewardship exist therefore would propose removing this from the reporting guidance. We note that MIFID requirements reference "knowledge and competence" which we believe would be a better reference for assessing the workforce.

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 stewardship should not be limited to listed equity investments as stewardship activities can play a role in value protection across a range of asset classes. Managers should be required to explain how they approach their stewardship responsibilities in different asset classes so this is clear to asset owners. Managers should also be required to state how they manage any conflicts of interests by being holders of different securities in the same company.

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 that is right to ask for evidence of and expect that there will be a firm wide approach and strategy to the execution of a firms stewardship obligations. Managers should also be required to disclose particular funds or products where there may be a divergence to the organisational approach and to explain why and what impact this might have on their clients/beneficiaries interests.

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, we strongly support that any code signatory must disclose their investment beliefs and as a minimum this should include their beliefs on time horizons, social purpose and ESG and sustainability issues.

Q12. Does Section 3 set a sufficient expectation on signatories to monitor the agents that operate on their behalf?
It is critical that signatories have oversight of the agents acting on their behalf. This should result in the right signals to raise standards across the investment chain which should be a common goal.
Monitoring is less impactful than oversight as oversight should be clearly stated as focussing on outcomes as opposed to policy and processes with the intent to intervene if required.
Asset owners should also not be encouraged to "delegate" their stewardship responsibilities to their service providers but be held accountable for them.

Q13. Do you support the Code's use of 'collaborative engagement' rather than the term 'collective engagement'? If not, please explain your reasons.
We have no strong view on this as they are both mechanisms to the same end unless there are regulatory issues with using one term over another.

Q14. Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be?
We believe that the ability for investors to raise private concerns to regulatory authorities will promote the quality and integrity of markets. Shareholders in the UK do have powers to pursue legal actions against Directors if they are not complying with their duties however this is costly, drawn out and therefore seldom pursued.
It would however be important that the FRC and subsequently AGRA has the required expertise required to deal with such matters and an acute understanding of the sensitivities that they can come with. The process should be seen as a useful/helpful mechanism to enhance the integrity of markets and not as a "duty" on investors.

Q15. Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity?
See Q9.

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?
We agree that the principles and provisions set sufficiently high expectations of practice and disclosure/reporting.