Email

29 March 2019

Dear Sir or Madam,

Thank you for the opportunity to comment on the FRC's draft revised Stewardship Code. Please find below our responses.

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 are concerned that the opening definition of Stewardship fails to explicitly state the primary duty of acting as a fiduciary to clients and beneficiaries. We believe it is important to avoid any doubt that beneficiaries interests might therefore come second to the advancement of public policy or environmental and social causes.

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

Q3. Do you support 'apply and explain' for the Principles and 'comply or explain' for the Provisions? Yes, we strongly support this approach. We think it is vital to avoid a prescriptive approach and allow for the varied investment philosophies and resources across the asset management industry.

Q4. How could the Guidance best support the Principles and Provisions? What else should be included? We strongly disagree that the guidance section is necessary, as this will be interpreted as a prescriptive and restrictive checklist.

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 agree with the intention of providing better quality disclosure with which asset managers' stewardship effectiveness can be assessed. It does, however, introduce new challenges.

From the perspective of a boutique asset manager, the challenges will be additional resource requirements and the ability to report on material outcomes each year. We are concerned that there may be an unintended consequence of penalising smaller boutiques with fewer resources and holdings, who by nature may have more limited opportunities for engagement or ability to deliver concrete outcomes each year. Due care must be taken to avoid this when scoring the annual reports.

We also foresee a meaningful challenge from the FRC's perspective – adequate resources to fairly undertake the scoring of annual reports. By allowing for each signatory to define individual stewardship approaches and objectives, the annual assessment of reports will likely be idiosyncratic and subjective. It is for this reason that it is difficult to clearly answer 'what should signatories be expected to include in the report to enable the FRC to identify stewardship effectiveness'. The requirements for reporting will be directly linked to the stated stewardship approach and objectives individual to each signatory. Overall, therefore, we would urge significant caution in pursuing this approach.

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 but with the caveat explained in Q5.

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? We believe that the new Code does set a higher bar for stewardship in the UK, and so responds to the Kingman call that the Code be strengthened. As mentioned above, the FRC will need to have adequate resources to fairly undertake the scoring of annual reports and lend credibility to the scoring system.

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

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? No comment.

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? No comment.

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.

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

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

Q14. Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be? We believe there are already forums for doing this through collaborative engagement.

Q15. Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity? No comment.

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 are unclear whether service providers should be held to the same standards as those asset owners and investors with fiduciary responsibilities. We believe service providers are held to account by their clients, and this is more appropriate.

Sincerely,

Alexandra Christiansen