



Investment Association Services Limited (trading as Institutional Voting Information Services) Stewardship Report 2020

Introduction

I am pleased to introduce the 2020 Stewardship Report for the Investment Association's (IA) Institutional Voting Information Service (IVIS). This sets out how IVIS has applied the FRC's Stewardship Code for Service Providers for the period 1 January 2020 to 31 December 2020.

For IA members, as significant investors in UK listed companies, stewardship has always been important, but with increasing regulatory and client expectations on their stewardship activities and ESG integration, it is vital they demonstrate how they are delivering on their stewardship objectives and good outcomes for clients and wider society. In this Stewardship Report we set out how IVIS, the IA's corporate governance research service, helps our members to deliver on their stewardship objectives. We have focused on the approach that IVIS has taken on pensions, gender diversity and climate change disclosures, demonstrating the progress made in 2020.

However, the IA's approach to stewardship is much wider than IVIS. The IA were pleased to be secretariat to the HMT Asset Management Taskforce Stewardship Working Group, which produced the report *Investing with Purpose: placing stewardship at the heart of sustainable growth*. The [report](#) set a blueprint for an economy-wide approach to stewardship, to ensure investment supports long term returns and benefits, not just for the millions of savers our industry serves, but also for the economy, the environment and society. The IA is collaborating with stakeholders to see the report's recommendations adopted and implemented. In 2021, the IA is working with our members to create guidance on embedding stewardship in different asset classes such as fixed income, how we can strengthen the long-term relationships between investment managers and asset owners and developing guidance to overcome existing barriers to requisitioning resolutions.

This Stewardship Report has been approved by the IA Board. The IA's Chair, Keith Skeoch has excused himself from this process, to avoid any conflict of interests, as Mr Skeoch is also interim Chair of the Financial Reporting Council.

I would welcome feedback on our approach and reporting on stewardship.

Chris Cummings
Chief Executive
The Investment Association



Principle 1 - Signatories' purpose, strategy and culture enable them to promote effective stewardship.

About IVIS

IVIS was developed in 1993 to provide corporate governance research for investment managers and analyse proposals submitted at shareholder meetings. IVIS helps subscribers make an informed voting decision, it does not provide directed voting advice but highlights issues or concerns that subscribers should be aware of prior to voting. This helps to promote good stewardship, as it requires subscribers to make their own stewardship decisions on engagement and voting, taking account of their views and knowledge of individual circumstances of the company. IVIS also helps uphold the IA guidelines and Shareholder Priorities that IA members have identified as important issues for them as long-term investors in UK listed companies. IVIS is one way that the IA assesses if UK listed companies are responding to these investor stewardship expectations.

IVIS is a subscription service, which provides subscribers with full access to all IVIS reports, alerts when an IVIS report is published, a weekly email summarising recently published reports and access to the IVIS database through the IVIS search functionality.

IVIS monitors and assesses FTSE All-Share companies and the 50 largest FTSE Fledgling companies against the UK Corporate Governance Code, the IA Guidelines as well as other industry guidelines such as the Pre-emption Group Guidelines. IVIS does not conduct analysis on any other listed or non-listed companies, asset classes or geographies.

For each company meeting, IVIS prepares a report which has three distinct sections, the Proxy Report, the Corporate Governance Report (the CG Report) and the Environmental, Social & Governance Report (the ESG Report). The Proxy Report replicates the meeting agenda and concisely identifies areas of concern or other issues shareholders should be aware of prior to voting. The CG Report analyses the company's governance structure highlighting the board and committee structure, compliance with the UK Corporate Governance Code as well as other shareholder expectations on diversity, board effectiveness, succession planning, workforce engagement and audit and accounting issues such as Audit Committee and Auditor judgements. The ESG Report monitors compliance with the IA Long Term Reporting Guidance (which includes guidelines on human capital; productivity; capital management and ESG disclosures) and the company's approach to TCFD reporting.

IVIS does not provide voting recommendations. Instead, it highlights specific matters for subscribers to consider prior to voting through a colour coding system. Each report is colour coded (or topped), with Red indicating a breach of best practice and not conforming to our Guidelines, Amber raises awareness of particular elements of the report which require an investor judgement, and Blue indicating no areas of major concern. IVIS also uses a Green Top in cases when an issue has been resolved by the company after they have issued their Annual Report or AGM documentation. The issue which is driving the colour top is clearly outlined in the 'Key Issues' and 'Colour Top Synopsis' section of the IVIS Report. IVIS also summarises the main issues in the STATUS bar of the report and, if appropriate, the conclusion. This approach means that subscribers use the reports to inform their own voting



decisions and encourages thoughtful and informed engagement with companies by IVIS subscribers on the issues identified.

In addition, as a part of the IA, IVIS receives requests from UK listed companies to engage with their Board on various governance matters. Of the matters that IVIS is asked to engage on, the vast majority relate to executive remuneration. This process allows us to provide feedback to the companies and, if the company asks us to do so, seek feedback from IA members who are also consulted. This process allows both companies and shareholders to identify areas of potential concern early and resolve them before any final decisions are made or the final documentation is produced and published. The IVIS consultation service is not a paid for service.

Ownership of Investment Association Limited (trading as Institutional Voting Information Service (IVIS))

IVIS is the trading name for the corporate governance research services of Investment Association Services Limited, a wholly owned subsidiary of The Investment Association (the IA). Therefore, the governance, culture, and approach to stewardship of IVIS is linked to the IA approach to stewardship and its strategy to improve stewardship in the UK.

The IA is the trade association that represents UK asset managers. The IA champions UK investment management, supporting British savers, investors, and businesses. Our 250 members manage £8.5 trillion of assets and the investment management industry supports 113,000 jobs across the UK.

The IA's mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

The organisation's purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity,
- Help people achieve their financial aspirations,
- Enable people to maintain a decent standard of living as they grow older,
- Contribute to economic growth through the efficient allocation of capital.

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs. The UK is the second largest investment management centre in the world, after the US and manages over a third (37%) of all assets managed in Europe. IA members own on behalf of their clients one third of UK listed companies.

The core pillars of the IA's 2021 strategy are:

- Shaping policy and regulation
- Keeping the customer front and centre
- Working for effective markets
- Building stewardship, sustainability, and responsible investment
- Developing culture, diversity, and inclusion



- Driving competitiveness through innovation and resilience
- Helping firms succeed
- Promoting reputation

Stewardship and Corporate Governance

As noted above building stewardship and responsible investment is one of the pillars of the IA's strategy. The IA has a dedicated Stewardship and Corporate Governance team, which along with other IA teams delivers on this aim. The team has a broad remit, helping to work on a number of the IA's other strategic pillars:

- Shaping policy and regulation - such as engaging with UK government and regulators on the corporate governance, audit, corporate reporting, and stewardship regime in the UK,
- Developing culture, diversity, and inclusion - within investee companies by promoting initiatives and actions to improve diversity of the Boards and senior leadership teams in UK listed companies and highlighting to subscribers those companies that have not met investor expectations on diversity,
- Helping firms succeed - through helping them make informed voting and stewardship decisions via IVIS's research,
- Promoting the reputation of the industry by improving stewardship outcomes in the UK.

The Director of Stewardship and Corporate Governance is a member of the IA Executive Committee and responsible to the IA Board for delivering on the IA work on stewardship. The IA see our role in stewardship as using the aggregate voice of our members to help deliver better run companies for members to invest in, by focusing on material risks to the long-term value of the company.

The Stewardship and Governance team is accountable to the IA's Stewardship Committee. The Committee recently refreshed its 3-year strategy to focus on the following areas:

- **Regulatory Environment for Stewardship and Corporate Governance:** To promote a coherent regulatory environment for stewardship and corporate governance that supports sustainable value creation in investee companies and drives alignment of expectations across the investment chain.
- **Improving Stewardship Practices:** To promote and facilitate the highest standards of stewardship practice by supporting member firms to integrate stewardship and ESG considerations in the investment process, to meet emerging regulatory requirements and to engage effectively with client demand.
- **Creating a Sustainable Economic Recovery:** To help create a sustainable economic recovery which prioritises long-term value creation for clients alongside benefits for the economy, society, and the environment. To demonstrate the impact that investors can have through their role as stewards and the important role of stakeholder voice in a sustainable recovery.
- **Corporate Reporting and Audit:** To promote coherent reporting standards and practices that support sustainable value in investee companies and assist members to make informed investment decisions and meet their reporting requirements. To promote high quality, user-driven, audits.



IVIS contributes to the delivery of this strategy, particularly improving stewardship practices by helping members to integrate stewardship into their investment processes by IVIS highlighting material issues through the IVIS reports. Upholding member guidelines on a sustainable economic recovery and promoting better reporting by UK listed companies.

IVIS purpose and culture

Since IVIS' inception, the guiding purpose has been to aid subscribers in making informed voting and engagement decisions. The IA and IVIS are not shareholders in the companies analysed so do not believe that it is our role to provide directed voting advice. Instead, IVIS seeks to uphold IA guidelines and highlight the issues or concerns which IVIS believe subscribers should consider prior to voting. IVIS reports and the IA guidance are regularly reviewed by the Stewardship Committee to ensure that they are meeting member needs and providing high quality, independent research.

IVIS promotes a culture of dialogue rather than confrontation. IVIS does not provide voting recommendations. The reports seek to give members sufficient information - including the company explanations - so that subscribers can make an informed voting decision. Members can also identify those companies that are meeting shareholder expectations.

IVIS aims to be market led, ensuring that IVIS is highlighting the issues which our subscribers and IA members consider are important to long term value creation. While IVIS reports are based on publicly available documents, IVIS will contact companies when there is a need for clarification or further information. Company explanations are included in the reports to ensure they are fair and balanced, and members have all relevant information before voting.

Thanks to this approach, we believe the companies are willing to engage with us and have a genuine dialogue aimed at improving their approach to best practice and addressing shareholder concerns. For example, if a company does not meet all the provisions of the UK Corporate Governance Code and has decided to explain against a provision, IVIS will provide a summary of the company's explanation. This means that shareholders can understand the approach taken by the company and reasons for it. This in turn promotes effective stewardship. It also helps to support and promote the comply and explain approach to corporate governance in the UK.

The culture of dialogue is also applied internally. The IVIS team, being relatively small, can have regular discussions on corporate governance matters and keep up to date with relevant developments. When publishing the IVIS report, the colour top decision is normally discussed between the analyst and the Head of IVIS and in some more complex cases, or when there is no consensus, with the Director of Stewardship and Corporate Governance or the entire team (usually only in unprecedented cases). On rare occasions, when the team is unable to arrive at a consistent view, IVIS may seek further clarification from the company or reach out to our members to get the investor view on the specific matter.

As noted under Principle 2, we have a range of experience in the IVIS team and part of the team culture is to share knowledge and experiences within the team. New joiners are encouraged to learn and develop through contact and knowledge transfer with their more experienced colleagues. This is done through structured training, junior members of the team asking questions or participating in company meetings and committee meetings. This sharing of knowledge and a learning culture helps both the junior member to increase their



understanding, but also benefits the more experienced analysts solidify their knowledge, forcing them to consider how best to explain complex issues such as remuneration structures to colleagues.

The IA has a Personal Development Programme process in place which give staff members who wish to participate the opportunity to discuss their professional development and career within the IA in a structured and documented way. During this process, staff meet with their line manager to identify and agree a personal development plan, the training and development actions that follow, and an iterative ongoing review process. The IA has a training budget to fund external training or courses. IVIS analysts have been supported in their study for the Investment Management Certificate and currently some of the analysts are studying for or have included the achievement of the IMC as their objectives for 2021.

One of the major challenges for 2020 was to adopt to a working from home environment following the onset of the pandemic and stay at home measures. It is normal for individual team members to ask colleagues questions on a company's particular approach or if they have experience or knowledge of a different remuneration structure. The IVIS team had to quickly identify ways to replicate this conversational style in a work from home environment, so this culture of dialogue and debate was not lost particularly for newer members of the team. IVIS established WhatsApp groups so that colleagues could ask questions on approach, we also established daily "tea times", so that colleagues could catch up with each other and ask any relevant questions. Later in the AGM season, we moved away from these ad hoc approaches and the IA introduced Microsoft Teams so that colleagues could message or have video calls to ask questions. These methods helped the team to stay connected and allowed the team to continue to develop their knowledge and replicate the team dynamic in the office.

Over the last year, the IA has developed a number of policies to support employees ensuring that employees are spending time away from their screens and looking after their mental health and wellbeing. This includes increased communication with regular town halls to keep employees updated on developments in return to office and significant projects at the IA. The IA has also arranged a number of wellbeing weeks and all staff events so employees can stay connected with the organisation and colleagues. The IA is committed to develop its approaches to work and wellness through 2021 as it considers the return to office and consider the impact of the changing world of work on the way that IVIS operates, interacts with subscribers, companies, and advisors. We will report back on these evolving themes in 2022.

IVIS' role in upholding IA guidance

The IA has a range of guidance or expectations of UK listed companies. These represent the aggregate views of IA members on issues which will impact on the long-term value of investee companies and which if managed appropriately by companies will have a positive impact on society, the environment and wider economy. The IA has a range of guidance, such as:

- [Principles of Remuneration](#) - expectations on the structure and outcomes of executive remuneration.
- [Shareholder Priorities](#) – For the last 2 years, the IA has produced Shareholder Priorities which set out member expectations on four issues which IA members



consider have a direct link to long term value. These are climate change, audit quality, diversity, and stakeholder voice.

- [Share Capital Management Guidelines](#) – focussing on the share capital authorities that companies regularly submit for shareholder approval.
- [Long Term Reporting Guidance](#) – expectations on narrative reporting on a range of issues from productivity, capital management, human capital, and material ESG risks.
- [Other guidance](#) on issues including audit tendering, viability statements, virtual-only AGMs and quarterly reporting.

These guidelines and priorities are set by the IA in conjunction with two IA Committees: The Stewardship Committee and the Remuneration and Share Schemes Committee. These Committees are populated with individuals from a range of IA member firms, of differing size, business model and ownership models. The individuals are usually senior stewardship and corporate governance professionals but can also include portfolio managers or analysts. Once these guidelines are approved by the IA committees, the Stewardship and Governance Team including the IVIS team develop the approach which IVIS will take on these particular issues. These IVIS approaches are then discussed and approved by the relevant Committees.

The way that IVIS is used to help deliver IA member’s and IVIS client’s stewardship priorities has been most acutely demonstrated in the last couple of years, when the Stewardship Committee asked to focus on a couple of specific issues which would allow shareholders to demonstrate that they could change company behaviours through their stewardship activities. The Committee identified issues which were of particular importance to shareholders and long-term value creation and utilised IVIS to assist in achieving the desired stewardship outcomes. Two case studies in particular demonstrate the contribution of IVIS to effective stewardship by investors: executive pensions and diversity. The Stewardship Committee considered these two issues as being impactful on long term value for listed companies and identified significant appetite for change across the IA membership. Importantly, there was significant member support for the use of a colour top approach to those companies not responding to expectations.

These case studies demonstrate the long-term approach which the IA and IVIS takes to these issues and that IVIS approach and expectations evolve over time. Initially signalling to companies the changes that IVIS and IA members want to see from listed companies, which then evolve into colour top approaches. The expectations on listed companies and severity of the colour top increase over time, which gives companies time to respond, but still allows IVIS to highlight those companies that are not responding to member expectations.

Case Study – Alignment of pension contributions

Following the publication of the UK Corporate Governance Code in 2018, which stated that, “The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce”, IA members felt it was important to ensure that this provision of the new Code was appropriately and swiftly implemented by UK listed companies. IA members believed alignment of pension contributions is an important point of fairness but also helps to strengthen employee relations. In November 2018, the IA updated the Principles of Remuneration to state:

“The UK Corporate Governance Code states that pension contribution rates should be aligned with those available to the workforce. IA members consider this to be the rate which is given to the majority of the company’s workforce. Investors expect new



executive directors or any director changing role to be appointed on this level of pension contribution. The contribution rates for incumbent executive directors should be reduced over time to the contribution rate available to the majority of the workforce, members expect this to be achieved as soon as possible. Shareholders do not expect that compensation will be awarded for this change.”

This was followed up in February 2019, when the IA outlined the approach IVIS would take during the 2019 AGM season:

- For companies with year-ends on or after 31 December 2018, any new remuneration policy that did not explicitly state that any new executive director appointee would have their pension contribution set in line with the majority of the workforce received a Red top.
- Any new executive director appointed from 1 March 2019 whose pension contribution was above the level of the majority of the workforce resulted in a Red top on the remuneration report.
- Any existing executive director receiving a pension contribution of 25% of salary or more resulted in an Amber topped on the remuneration report.

Through this approach IVIS was focussing on any new directors appointed to a Board seeking immediate change by asking them to be appointed on a pension contribution aligned to the majority of the workforce rate. Members knew that arrangements for new directors were initially easier to address (as there was no existing contractual arrangement) than seeking change on the pension arrangements for existing directors. However, the Amber top for companies that paid pension contributions of 25% of salary or more highlighted the companies with the highest pension contributions and therefore, those companies that were furthest away from alignment of pension contributions between the Director and majority of the workforce.

In September 2019, the IA set out the progress achieved in 2019 against this pension alignment with 33 FTSE 100 companies made significant changes to their pension provision in 2019. This included:

- Twenty FTSE 100 companies committed that any new Director will be given a pension contribution in line with the majority of the workforce.
- Four companies reduced pension contributions for incumbent Directors immediately.
- Three companies appointed new directors with a pension contribution in line with the majority of the workforce.
- Six companies made multiple changes in that AGM season – reducing contributions for both existing and future directors.

At that time, the IA set out the approach which IVIS would take during the 2020 AGM season:

- IA members requested that companies disclose in their Remuneration Report the pension contribution rate which they consider to be given to the majority of the workforce.
- The position for new executive directors, as set out above, was maintained for the 2020 AGM season.
- For existing executive directors, the IA set out that members expected Remuneration Committees to set out a credible action plan to reduce the pension contributions of incumbent directors to the majority of the workforce level by the end of 2022.



- Where the committee had not disclosed a credible action plan to reduce the director's pension contribution to the majority of the workforce rate by the end of 2022, IVIS would Red top the remuneration report if the pension contribution received by the executive director was 25% or more.

In 2020, IVIS red topped twenty-nine companies in relation to their pension contributions. Since the start of the initiative, 98% of FTSE 100 companies analysed have now either aligned the pension contributions of new directors with that of the workforce or committed to doing so. Up to September 2020, fourteen FTSE 100 companies reduced pension contributions for existing directors during 2020 and a further forty-three committed to reduce contributions in future years. Six FTSE 100 companies are increasing their workforce rate as part of their effort to align pension contributions. This shows that this approach has resulted in considerable change in company behaviour on their pension provision, helping investors to achieve their expectations.

In November 2020, the IA announced that for companies with year-ends starting on or after 31 December 2020, IVIS would Red top companies that provided a pension contribution of 15% of salary or more, if the Remuneration Committee had not provided a credible action plan to ensure that pension contributions were or would be aligned with the majority of the workforce by the end of 2022.

Case Study - Gender Diversity

Investors view diversity as a core and critical business issue that boards and leadership teams must address to secure their long-term success. Diversity is a key ingredient of effective governance. There is a growing body of research indicating that more diverse boards make better long-term decisions, leading to more productive and sustainable businesses.

The IA and our members have supported the Hampton Alexander Review, which is the UK government backed review to improve gender diversity in FTSE 350 companies. In April 2018, the IA wrote with the Hampton Alexander Review to thirty-five FTSE 350 companies with low female representation at leadership levels, calling for change. We wrote to:

- Six FTSE 100 companies which had an all-male Executive Committee as at 30 June 2017:
- The ten companies (in the FTSE 100) with the lowest representation of women in their combined Executive Committee and Direct Reports, as at 30 June 2017,
- Ten FTSE 250 companies who chose not to respond to the Hampton-Alexander Review data request in 2017,
- Eleven FTSE 250 companies who have all-male Boards as at April 2018

There was no IVIS colour top approach on gender diversity during 2018.

In early 2019, the IA and Hampton Alexander Review wrote again to sixty-nine FTSE 350 companies, outlining concerns about the lack of gender diversity on their board. The letter, which was sent to companies who have no women or just one woman on their board, asked companies to outline what action they are taking to make progress and ensure they are meeting the Hampton-Alexander targets of 33% of women on their board and leadership team by 2020. These letters were coupled with a new IVIS approach to highlighting the lack of gender diversity on Boards. For the 2019 AGMs, IVIS took the following approach:



- Applied a Red top to FTSE 350 companies where there was none or only one woman on the board (except for instances where the 33% Hampton Alexander target had been met)
- Applied an Amber top to FTSE 350 companies where there was more than one woman, but less than 25% of the board were women. These companies were unlikely to meet the recommendation of the Hampton-Alexander Review of 33% of women on boards by 2020.
- Applied an Amber top to FTSE Small Cap companies where less than 25% of the board were women.

This colour top approach focussed on the companies that needed to take the most significant action, with a Red top, whilst using an Amber top for those companies that still needed to make progress to achieve the Hampton Alexander targets.

In February 2020, the IA and Hampton Alexander Review wrote again to 63 companies who were asked to outline what action they are taking to improve the gender balance in their leadership teams and ensure they meet the Hampton-Alexander targets of a minimum 33% of women on their board and in their senior leadership teams by the end of 2020.

To reinforce the investors' commitment to improving diversity on boards, in 2020, IVIS highlighted companies that are not meeting investor expectations on diversity and increased the severity of our approach. IVIS Red topped the Corporate Governance Section of the IVIS Report any company in the FTSE 350 with:

- Women representing 20% or less of the Board.
- Where there was one or less women on the Board (unless the one third target is achieved i.e. a board of three directors).
- Women representing 20% or less of the Executive Committees and their Direct Reports.
- In the FTSE Small Cap and FTSE Fledgling, IVIS amber topped companies where women were less than 20% of the Board or Executive Committee and its direct reports.

In 2020, IVIS red topped fifty-four FTSE 350 companies for either their board or senior leadership diversity. In the FTSE Small Cap and Fledgling IVIS Amber topped 166 companies for the same reasons. As data published by the Hampton Alexander Review shows, the number of one and done boards (where there is a single female director) has fallen from 76 in 2018 to 16 in 2021, with all male boards falling to zero. Since October 2017, the Women on Boards in the FTSE 350 has increased from 24.5% to 34.3% in October 2020. Likewise, the representation of women in senior leadership has increased from 24.5% in June 2017 to 29.4% in October 2020. Whilst the IVIS approach helps members to focus on those companies that need to achieve change. There have been a range of initiatives and individual approaches to improve gender diversity on Boards, from the Hampton Alexander Review, 30% Club and approaches by individual investors. Each will have an impact to change company behaviours and improve diversity, we hope that IVIS and the IA has contributed to this change. The issue of gender diversity is still important to shareholders despite the end of the Hampton Alexander Review, in 2021, IVIS will take the following approach:

- FTSE 350 companies that have female representation of 30% or less on their Board will receive a Red Top on the Corporate Governance Report



- FTSE 350 companies that have female representation of 25% or less in their Executive Committee and its direct reports will receive a Red Top on the Corporate Governance Report.
- For FTSE Small Cap companies the same thresholds will apply but an Amber top will be issued.

Both these case studies are evidence of the way which IVIS is used to help drive stewardship outcomes and deliver change in company behaviours to meet IA member and IVIS subscriber stewardship objectives.

How IVIS responds to the current market environment – COVID 19

Following the outbreak of the Covid-19 pandemic, the Committees discussed the approach to support companies throughout the pandemic but also to ensure the interests of shareholders, employees and other stakeholders are being considered. In April 2020, the IA issued guidance on [Executive Remuneration During the Covid-19 Pandemic](#). At the request of members, IVIS updated the approach it took to analysing companies through the 2020 AGM season. IVIS highlighted a range of new issues in the IVIS report to aid subscriber understanding of how companies were responding to the pandemic. IVIS set out the arrangements for the AGM, whether the dividend had been cancelled or cut, including whether the dividend resolution had been withdrawn. IVIS also set out any post Annual Report announcements on changes to the remuneration structure for the Board in 2020, such as temporary salary or fee reductions, forfeiture or voluntary reduction of bonuses or changes to LTIP grant sizes. This helped IVIS subscribers to take the up-to-date company context into account when analysing the company and deciding how to vote ahead of their AGM.

The COVID remuneration guidance was reviewed following member feedback and updated for [2021](#). IVIS has adapted its approach to reflect the key priorities outlined in the guidance. For 2021, IVIS will include information in our reports where companies received government support (such as furloughed employees), implemented large scale redundancies, cancelled dividends, raised additional capital from shareholders or other changes to employee pay and bonuses. These factors are relevant for our review of director remuneration to ensure executive experience is commensurate with the experience of other stakeholders, particularly employees.

IVIS reflecting member views and evolving positions.

IVIS team members regularly attend meetings of the Stewardship and Remuneration and Share Schemes Committees where they can contribute to the discussions and gain understanding of members' views and policies. After every Committee meeting a team meeting is held where the contents of the Committee discussions and feedback from members are shared with the team members who did not attend.

IVIS' participation in the Committees' meetings also allows members to better understand the IVIS approach and question or challenge it. This allows IVIS to react swiftly and adjust our approach to best suit members' stewardship and voting needs and as a result to promote effective stewardship.

In a recent review of IVIS at the Remuneration and Share Schemes Committee, members noted that IVIS is a crucial service. They stressed IVIS' role in supporting investors'



stewardship activities promoting improved company disclosure and outcomes. Members noted that the remuneration consultation process led by IVIS are useful for members and facilitate comprehensive engagement with a greater number of companies.

During the AGM season, IVIS analysts see the majority of FTSE listed companies approaches to governance, remuneration and other reporting issues. With this knowledge base they can identify trends and potential new concerns. These are then discussed with members, depending on their severity, either at the Committee meetings or on an ad-hoc basis where necessary (for example where a new area of concerns is identified which is not covered by the guidelines).

After each AGM season IVIS and the wider IA policy team will review its findings from the AGM season. This allows IVIS to identify issues or concerns which are emerging. The IA share these findings with the Committees to get their perspectives, allowing members to identify other issues which may have been a concern to them. A decision can then be taken if the IA guidelines need to be updated or whether the approach IVIS takes to analysing companies needs to change. IVIS also provides data and observations which help to measure the effectiveness of the IA campaigns, such as alignment of executive pensions with the wider workforce, diversity, disclosure of climate risks. These then feed into policy and Guidelines reviews for the following year.

Using the pension contributions approach outlined above as an example, in August 2020, IVIS analysed companies during the 2020 AGM guidelines. Following the 2020 AGM season, the IVIS team analysed FTSE 100 companies, to see which:

- companies had made a commitment to align pension contributions for new executive directors,
- companies that appointed new directors on a pension contribution aligned with the majority of the workforce,
- companies that had reduced pension contributions for incumbent directors during the year,
- companies that had committed to align pension contributions for executive directors with the majority of the workforce by the end of 2022,
- companies that increased the pension contributions for all-employees.

This information allowed IVIS and the IA Committees to assess the effectiveness of our approach to pensions for 2020 and consider how to update the IVIS approach and colour top for 2021. Given the progress made during 2020, the Committees asked IVIS to reduce the threshold at which a Red top was applied from pension contributions of 25% of salary to 15% of salary. The determination of this approach was only agreed after the progress in 2020 was analysed and assessed.

Member and Company Engagement

IVIS and the IA are ideally positioned to assist the dialogue between members and companies. Whilst not wanting to interfere with the direct engagement between companies and their shareholders, the IVIS team can help members with the remuneration consultations which involves the preparation of remuneration summaries of the company's remuneration proposals. This approach is described in Approach to Remuneration Consultations below. However, company meetings are not limited to remuneration. Companies approach us to discuss wider corporate governance matters, such as Board



succession, diversity, ESG risks etc. Meetings are usually attended by representatives from IVIS and the Director of Stewardship and Corporate Governance and this facilitates broader discussions, as appropriate, even the discussion is originated on remuneration matters, this often leads to other material governance and ESG issues from diversity to succession planning or climate change reporting.

Depending on the nature and confidentiality of the company meetings, IVIS may brief our members on the topics discussed or seek their views, which may be shared with the company and inform our approach at further engagements or when producing the IVIS report. Member feedback to companies is provided on an anonymous basis. This allows members to give frank opinions which they may not be able or willing to express when engaging directly with the company. As such we believe IVIS can provide an additional and frank voice in the engagement process and thus serve to improve stewardship.

Individual IA members may also approach IVIS either to seek our view or raise concerns. These may relate to a particular company, market, an area of corporate governance or the contents of the IVIS report. This may have result in various actions, for example:

- Contacting the company for further explanations/a meeting.
- Raising a matter at the Committee meeting.
- Informal discussions with other members.
- Update of the IVIS report.

These actions result in an improved communication with companies and more accurate IVIS reports.

Assessment of Effectiveness and Individual Feedback

IVIS receives regular feedback through the Stewardship and Remuneration and Share Schemes Committees. This serves as an assessment of our effectiveness. Members can flag issues, identify priorities, and request specific approaches to help them in exercising their stewardship activities. As noted above, members have fed back to IVIS that it plays crucial role in supporting their work and promoting improved company disclosure and outcomes and our reports and remuneration consultations facilitate comprehensive engagement with a greater number of companies.

As set out above, the approaches to pensions and gender diversity, has led to significant changes to company behaviour. The 2021 Shareholder Priorities will continue to evolve to ensure that the IA's positions on climate change, audit quality, stakeholder engagement and diversity are leading to better outcomes from companies and that shareholders are receiving the information they need from investee companies.

The IA and IVIS are already considering which issues will be important for 2022 particularly in light of the need for the companies to play a role in a sustainable economic recovery. This will likely include a range of social and environmental issues.

One area, we continue to monitor regarding the effectiveness of IVIS is the percentage of companies that receive a Red, Amber, or Blue top reports. In recent years, with the specific positions on diversity, pension contributions (highlighted above) and the approach we take to Amber topping reports where executives are receiving a significant increase to pay



opportunity through variable pay or salary increase or if the company fails to meet our policy on post-employment shareholding guidelines, IVIS has seen the number of Red and Amber tops increase, resulting in less companies receiving a Blue top. In 2020, Red tops accounted for 17% of AGM and GM reports, with Amber tops accounting for 42% of AGM reports and 19% of GMs. Our concern is that unchecked, there would not be enough distinction between the colour tops, with too many companies receiving an Amber top, negating its effectiveness as a stewardship tool.

IVIS continues to understand the views of subscribers on our colour top approach to ensure that we are appropriately highlighting the severity of different issues on the appropriate colour top. At the current time, we consider that as members have asked for the various issues to be highlighted on a particular colour top, the current approach is still helpful to members, but we will continue to monitor if there is sufficient distinction and differentiation between them and enough companies receive a Blue top. IVIS will keep this under review following the 2021 AGM season and will implement any changes for 2022.

Principle 2 - Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

Governance and Resources

The work of IVIS is overseen by the IA's Director of Stewardship and Corporate Governance. The Director of Stewardship and Corporate Governance is accountable to the IA CEO and IA Board for the running of IVIS and specifically the judgements and approach which IVIS takes. Neither the IA CEO nor the IA Board are involved or consulted on individual companies or the resulting colour tops of an IVIS Report to avoid any perceived or actual conflicts of interests which may exist.

As outlined above, the IA Guidelines and IVIS approach is set by the IA Stewardship Committee and Remuneration and Share Schemes Committee which comprises of individuals from member firms responsible for stewardship, corporate governance or portfolio management. This leads to a market-based approach focussing on the issues which are important to members, as shareholders in UK Plc. The IA Board does not approve the IA guidance given the potential conflicts which exists with the CEOs of listed investment management companies sitting on the IA Board.

The IVIS team currently comprises seven members, including the Head of IVIS and Deputy Head of IVIS. Five of the seven person IVIS team are women, and the team is made up of individuals from a diverse range of nationalities and ethnic backgrounds. Diversity within the IA and the investment management industry is of particular importance to the IA. The IA is a signatory to the Women in Finance Charter, the Race at Work Charter and Change the Race Ratio to improve gender and ethnic diversity. The IA have set targets for improving gender diversity at the IA, voluntarily report our gender pay gap and will later this year set targets for improving ethnic diversity within our organisation. Investment 2020 is the IA's industry careers service focuses on widening access to diverse talent including school and college leavers, as well as graduates. IVIS has taken one Investment 2020 graduate in the last 2 years.

The IVIS team comprises a balance of experienced corporate governance analysts and recent graduates. The IVIS team has a range of qualifications and experiences from specific corporate governance qualifications to a wider range of other educational subjects. Two IVIS



team members have worked on corporate governance at other service providers. When necessary, IVIS uses temporary staff for data input only, IVIS does not use temporary staff for full company analysis.

The IA has a graduate programme which allows graduates with analytical skills to develop experience. IVIS currently employs three recent graduate analysts; previous graduate IVIS analysts have moved to other roles within the IA. This works for both the IA and the individual as we are able to hire quality individuals with analytical skills and the individuals can gain valuable experience necessary at the start of their careers, with a view to positions across the company and industry. Graduates who have left the IVIS team have taken on roles in stewardship policy at the IA, joined member firms to fulfil stewardship at an investment manager or taken up other policy roles within the IA. The grounding in IVIS has been a beneficial starting point on understanding governance, stewardship and developing analytical skills.

IVIS has an induction and training process which ensures that new staff are provided with a detailed understanding of corporate governance, IVIS activities and each element of the IVIS report and particularly remuneration structures in the UK market. All members of the team receive regular updates on different aspects of corporate governance and related topics. The IVIS team regularly meets and discusses new development in the market or current issues relating to the work of IVIS. They are also kept up to date with member and market sentiment on particular issues. IVIS analysts can attend IA events, webinars or internal town halls with industry leaders, regulators and politicians and other thought leaders. As mentioned in Principle 1 above, team members attend the meetings of the relevant IA Committees, which enable them to better understand members' views, receive feedback or discuss trends and concerns. IVIS team members may also attend external events which is also a useful way of expanding their knowledge and expertise.

The IA has a performance management system aimed at ensuring the right outcomes against individual objectives and the wider priorities of IVIS and the IA. The analysts' performance is measured based on the quality of their work, accuracy of the IVIS reports as well as using their knowledge to promote best practice and members goals when engaging with the companies or their advisors. All IA employees are eligible to participate in the IA incentive schemes, which include a discretionary annual bonus.

IVIS uses its own bespoke technology for writing and storing company reports and to enable client's various ways to search through the database. The system is website based and we continuously review how to evolve and improve the product. IVIS analysts receive specific training on the IVIS website.

Fees

The IA is a Trade Association. The Company's aim is to have a surplus for between two and six months of expenditure in reserves with a target of four months. IVIS is an additional subscription service aimed at helping members to deliver their stewardship goals. IVIS has a single fee structure which gives access to all our resources (IVIS reports, search engines, IVIS alerts and weekly emails). Alternatively, reports can be purchased on an individual basis by those not wishing to subscribe. We believe that the fees are appropriate given the resource and expenditure required to deliver those services, given the nature of the IA's business and business model.



IVIS Processes

The following points set out our processes in the delivery of the IVIS reports. Our Guidelines can be found on the IVIS [website](#). These guidelines set our members' expectations of UK listed companies. The guidelines are subject to periodic review and discussion by the IA's Stewardship Committee and Remuneration and Share Schemes Committee to ensure they continue to represent IA member interests and current market best practice (see Principle 1). They cover a wide range of issues that are important to the alignment of the interests of investors and companies; including share capital management; pre-emption rights; ESG risks; climate-change risks, executive remuneration and corporate governance. The IA's Stewardship Committee also set positions or approaches which IVIS should follow for example the way that IVIS should 'colour top' companies.

IVIS Reports for Shareholder Meetings

When companies in the FTSE All Share and FTSE Fledgling indices hold an Annual General Meeting (AGM) or a General Meeting (GM), IVIS would produce an IVIS report for that meeting. IVIS analyses the proposals submitted for shareholder approval and, in case of AGMs, produces a Corporate Governance and ESG reports.

In each case IVIS considers the disclosures made by the company in any of its public documents including RNS disclosures, annual reports, and meeting documents such as the notice of meeting. IVIS considers these for consistency with previous year's disclosures and highlight relevant changes or areas of interest.

IVIS only prepares reports on companies listed in the UK and our analysis is based on UK corporate governance best practice. Our members expect all UK listed companies to follow UK best practice irrespective of their country of incorporation. IVIS notes that companies incorporated outside of the UK may have to depart from best practice due to local regulations applying to them. Where this is the case and where it is disclosed by the company, this is noted in the IVIS report.

In the process of preparing the IVIS report, the IVIS analysts scrutinise the proposals and structures presented to shareholders for approval and, where applicable, compare them against previous years' disclosures to see if there are any areas of concern which had been highlighted previously. Where resolved, this will also be highlighted alongside other positive developments (for example an improvement in disclosure). Significant levels of shareholder dissent at the last shareholder meeting and whether a company was included in the [IA's Public Register](#) is also highlighted. When this is the case, a summary of the Company's response and update statements is included where this has been made publicly available.

The IVIS Report has three sections, the Proxy Report, Corporate Governance Report and ESG report.

Proxy Report

The proxy report includes an overview of financial performance of the company, focusing on the measures the company considers as its key performance indicators. While IVIS normally does not comment on the company's performance against these indicators, they are taken



into consideration in the overall analysis. For example, IVIS may comment on payments made to the directors in the context of the financial performance of the company.

IVIS reports focus on matters that IA members have highlighted. As such, IVIS usually provides no comment on routine proposals such as the re-election of a non-executive director who meets independence criteria of the UK Corporate Governance Code and there are no issues of accountability of decision making to be raised. However, if a director does not meet one of the independence criteria of the Code, this is highlighted in the report along with any company explanation.

A significant part of the IVIS proxy report focuses on analysing the company's approach to executive remuneration. We outline the company's remuneration policy and emoluments paid, and in the narrative section provide more detail on the remuneration structure, implementation of the policy for the year under review and any potential concerns or breaches of best practice.

If IVIS has had engagement with the company during the year, for example when there was a remuneration consultation, this is reflected in the IVIS report together with a summary of member feedback.

The issue which is driving the colour top is clearly outlined in the 'Key Issues' and 'Colour Top Synopsis' section of the IVIS Report. IVIS also summarises the main issues in the STATUS bar of the report and, if appropriate, the conclusion.

At any time during the drafting stage, we might contact a company if further information or clarification is needed in order to complete the report or where discrepancies have been identified in the company's reports. Where a report has been highlighted on a Red top, a draft report is sent to the company, the company may provide further details or explanations on the highlighted issue or other matters.

Corporate Governance Report

In terms of the Corporate Governance and ESG reports, companies are analysed against a standard set of questions which are agreed by our members. The Corporate Governance Report focuses on the following areas:

- Board and Committee Composition – we highlight the membership of the Board and Committees as well as any changes since the previous report. We highlight where any Non-Executive Director does not meet the independence criteria set out in the UK Corporate Governance Code.
- Other directorships - all other significant directorships held by directors as this may lead to conflicts of interest or concerns over the directors' time commitments.
- Director attendance to board and committee meetings – we note where a director has missed a significant proportion of Board or Committee meetings.
- Compliance statement - we disclose how the company assessed its compliance with the UK Corporate Governance Code as well as summarising a company's explanations for deviations from the Code. We also note any areas in which IVIS has identified any divergence from key areas of the Code which has not been identified or explained by the company.
- Board composition and balance – we assess the Board composition, its performance evaluation procedures or how directors are re-elected.



- Board effectiveness and engagement - we highlight material disclosures provided by the company with regard to board effectiveness, diversity, succession planning and the company's approach to workforce engagement.
- Accountability, audit and reporting – we answer questions relating to internal controls, material risks, the viability statement, policy on audit tendering and audit and non-audit fees. We also highlight the Audit Committee and auditor's key judgements or risks of misstatement in relation to the audit.
- Audit quality - We also outline the materiality of the audit and whether the Audit Committee has discussed how they assess the quality of the audit. Finally, we assess whether the Audit Committee has made a statement as to whether they have taken account of the risks of climate change and any impact of alignment with the Paris Agreement into account whilst preparing the company's accounts.

Our approach is to highlight potential departures from the UK Corporate Governance Code and include any company rationale, when available. IVIS flags potential areas of concern, for individual shareholders to judge whether the company's approach is appropriate as this is a matter for the shareholders. The Corporate Governance Report can be colour coded for a number of issues including: Board composition, diversity of the Board, executives on board committees and the CEO succeeding the Chairman.

ESG Report

The ESG report monitors compliance with our Long-Term Reporting Guidance as well as the climate change related disclosures. For the purpose of this report, IVIS assess the quality of disclosure provided by the company in relation to its capital allocation, productivity, human capital reporting and environmental, social and governance (ESG) matters, risks and key performance indicators. The report highlights when the company has any verification procedures in place. This report can be amber topped depending on the Company's sector and its disclosure on climate change related issues aligned with the requirements of TCFD (see response to Principle 4 for further detail).

Review process prior to the publication of IVIS reports

Once a report has been prepared by an analyst, it is subject to a second check by another experienced analyst, the Head of IVIS or Director of Stewardship and Corporate Governance. In some cases, this will involve a second review or a discussion between members of the IVIS team on the appropriate colour top.

IVIS uses publicly available information and does not send draft reports to companies before publication (other than for confirming factual accuracy when we plan to issue a Red top). This helps to minimise bias and the risk of an analyst being put under pressure from companies or other advisors.

IVIS routinely sends companies (except investment trusts) a copy of their IVIS report following publication. IVIS does not charge companies for a copy of their IVIS report. At this stage, some companies provide additional rationale or explanations for their decisions. IVIS reports may be updated to reflect the feedback where appropriate. If the company provides material new information or an assurance on approach, IVIS can consider if the colour top of the IVIS report needs to be changed.



Principles regarding company contact and engagement when preparing the report

By extracting additional non-price sensitive information from the company, we consider that we facilitate the engagement process between companies and investors by allowing information to be quickly and more widely disseminated. We focus the inclusion of additional information from companies on new information rather than where company presents existing information in a different way.

- Where necessary, we engage with the company for further detail on any aspect of their disclosures.
- This engagement tends to be at Company Secretary or HR Director level but where appropriate we will engage with the Chairman of the board, the SID, Remuneration Committee Chairman, or other board members.
- On remuneration matters in particular we avoid, where possible, speaking to executive directors given their participation in the schemes under review.
- Where a company representative is unavailable, we will contact relevant advisers, such as lawyers, brokers, or remuneration consultants, for more information.

Shareholder Contact

Where appropriate we also engage with IVIS subscribers and members who are large shareholders in the company. This is to take account of individual explanations and take market views into account.

A summary of these views will be included in the IVIS report. These views will also feed into the determination of the colour top of the report which means that the IVIS reports represent the real views of owners.

Company Engagement between Shareholder Meetings including the Remuneration Consultation process

IVIS helps to facilitate engagement between IVIS, IA members and companies. The majority of engagement with companies is initiated by companies and relates to executive remuneration. Companies contact IVIS if they wish to seek views on their proposals relating to the Directors' pay. IVIS reviews the proposals against the Guidelines and would raise any potential concerns with members and the company.

The process starts with the company requesting to engage with the IA or IVIS on their proposals. This is usually done in the form of a letter or email. Given the confidentiality of such engagement, we ask the company if they wish to obtain IVIS feedback only or if they wish us to seek feedback from the members they have also consulted on their proposals.

IVIS provides feedback based on the company's proposals when analysed against our Guidelines and other best practice provisions. IVIS informs the company of potential breaches of best practice and potential areas of member concern. IVIS also seeks additional explanations or rationale on the proposals, if necessary.

In most cases, companies would also like to receive feedback or views of our members. In such cases the company is asked for the list of members they have consulted. IVIS will then



send a summary of the proposals to these members along with the original proposal from the company. This summary is in a consistent format which covers the changes which are being proposed, the overall structure of remuneration, the company's rationale as well as any wider company context such as performance or tenure of the executives. IVIS poses a number of questions for shareholders on their views or outstanding issues which need to be addressed by the company.

Once member feedback is obtained, this is summarised and sent to the company on a generalised and anonymous basis.

The remuneration consultation may have further iterations. The company may amend the proposals based on investor feedback and seek further comments or it may decide not to make any changes but to provide more detailed rationale. IVIS would forward the communication from the company to members and seek any further comments which IVIS would then relay back to the company.

The process is considered finished when the company issues the final letter summarising the changes or where the proposals are submitted for shareholder approval.

At each stage of this process, companies or members may request a meeting or a conference call. When members request a meeting with the company, this will usually take a form of collective engagement which is described in more detail below.

IVIS also receives letters from companies, informing investors on the company's decisions, rather than seeking to consult with them. In such cases, IVIS would not normally seek the views of our members. We would, however, review the contents of the letter and inform the company on areas of potential concern.

Occasionally, IVIS receives queries from members, which prompts further IVIS engagement with a company.

At each stage of the consultation process, remuneration consultation summaries and feedback to companies are checked by a senior analyst, the Head or Deputy Head of IVIS or the Director of Stewardship to ensure they fairly reflect the company proposals and member or IVIS feedback.

Some companies engage with IVIS to discuss corporate governance matters such as board diversity or succession planning. Companies may also want to discuss the assessment or analysis included in the IVIS reports. While the majority of these discussions focus on remuneration, a number of engagements also relate to compliance with the UK Corporate Governance Code as well as the ESG Report.

During 2020, IVIS received letters or communications from 226 companies on remuneration or corporate governance matters this resulted in 64 meetings with companies during 2020. In some instances, this has impacted the approach the Remuneration Committee took from withdrawing proposals, amending proposals, or provided additional information or context on their decisions and the approach taken. Given that several shareholders and proxy advisors will also be providing similar feedback to companies we cannot provide any direct link to the impact we have. But the resulting follow up letters and specific feedback to our questions show that Remuneration Committees consider and respond to our specific concerns.



This process helps IA members manage the level of remuneration consultations that they receive and allows companies to have direct feedback from the IVIS and our members. Our members have confirmed that the remuneration summaries are helpful for their own analysis. The feedback to companies allows them to understand the potential areas of concern prior to the proposals becoming public, which lets them to improve their disclosures and rationale or change proposals if they are unlikely to get shareholder support.

Collective Engagement

Occasionally, IVIS or the IA facilitates a collective meeting. These normally take place at the request of members to address an issue of concern such as executive remuneration or the appointment of the CEO as the Board Chairman. A request for a collective meeting may come from members but, if IVIS believes an issue is contentious enough to warrant such a meeting, it would engage with members to test the appetite for collective engagement. Some companies also approach the IA and IVIS to engage collectively with members as a means to meet a number of shareholders who they may not be able to see individually. We will arrange a collective meeting if there is sufficient demand from members.

We held no collective engagement in 2020 but have already conducted a collective engagement on remuneration proposals in 2021, with members noting that this is a useful mechanism to allow companies understand the views of members where they have consistent feedback to give to the company.

Review of Emerging Trends or Potential Concerns

At all the above stages, the IVIS team seeks to identify emerging trends, unusual issues or new potential concerns. Some of these matters are discussed with members at formal committee meetings. These committee discussions shape the IVIS approach in terms of assessment, engagement, and may result in an update to our Guidelines.

Approach to media enquiries

IVIS is a subscription-based service and does not generally disclose the colour tops publicly as we believe that this may result in a public focus on confrontation between shareholders and companies rather than a constructive dialogue, which can be counterproductive to the stewardship and engagement process. Press interest is usually disproportionately focused on public confrontation between shareholders and high street names with little regard to the underlying governance issues. However, the use of media may be appropriate in certain circumstances or when members believe that it would be helpful to create change within companies. We may also disclose some cases by specific thematic issues as highlighted through our Shareholder Priorities such as board diversity, pension or climate change disclosures.

Review of Governance Structures

Whilst the governance structure remains relatively stable, we keep it under review to assess whether improvements can be made. In 2020, IVIS appointed a Deputy Head of IVIS to help the Head of IVIS in day-to-day management of the team and report writing process. Whilst this appointment has been considered prior to the Covid-19 pandemic, steps were taken in



2020 to create this role. It has proven to be an important improvement, contributing significantly to team management during the pandemic.

Given the dynamics of the corporate governance market and rotation of analysts there are times when we need to adapt the structure to best use the skills of the team. We have also made some changes to team structures to respond to our members needs and to improve the way the team works. For example, given the importance of engagement with the companies and the increased volume of the remuneration consultations, we have appointed a designated senior analyst to manage the remuneration consultation processes.

IVIS is currently reviewing the remuneration consultation process to make it as useful as possible for members, ensuring that our remuneration summaries are prepared when most useful for members. We are also considering how can we support members' own engagement and feedback to companies. We are developing guidance for members and companies as to how the process works and considering ways in which we will be able to hear more views from shareholders. IVIS will report on the outcomes of this review in our next Stewardship Report.

Principle 3 - Signatories identify and manage conflicts of interest and put the best interests of clients first.

As required by the SRD II and the FCA requirements for proxy advisors, IVIS has published the [Statement of Conflicts of Interests](#), where we have grouped together companies where there is a potential conflict of interest in the preparation of IVIS reports. They are grouped in the following four categories:

- Those IA members that are UK listed companies, which IVIS will produce an IVIS report on.
- Those IA members whose parent company is a UK listed company which IVIS produces a report on (the listed company is in brackets).
- UK listed companies which have an IVIS subscription.
- Those IA members who are a pension scheme managing money on behalf of a UK listed company covered by IVIS.

In total there are 34 identified companies.

The IA guidelines are formulated with the participation of the IA members in their capacity as stewards. These guidelines are therefore set in line with best practice and do not benefit any specific members. These guidelines are developed by the IA's Stewardship Committee which includes members with a range of ownership types not just UK-listed firms. The variety of member views means that no one institution is given more weight than another.

When drafting reports on companies, that are also IA members, we strictly adhere to our Guidelines and draft the IVIS reports for the members as we would for any other company. We would also ensure that any conflicts of interests that may arise with any member discussions on specific companies or members are addressed. Such as individual committee members excusing themselves from the discussion if their employer is being discussed.

The IVIS team is long-standing and highly experienced in providing thorough research and consistent policy application without bias.



All of our reports are subject to thorough peer review, and where necessary wider internal discussion, to ensure the viewpoints put forward are consistent and without conflict.

We believe the result is a robust and consistent approach.

IVIS has a clear remit within the organisation to act independently and uphold the IA's guidelines irrespective of the report being on a member or any other listed company. As noted above the Director of Stewardship has ultimate responsibility for the colour coding decisions and they are never referred to the CEO or IA Board.

Analysis of the colour tops of the companies on this conflicts list shows that in 2020 they received 25 Amber tops and 3 Red tops on either the Proxy or CG report. Whilst a small sample, we consider this is not more favourable than the average percentage of Amber and Red tops. In addition, the internal assurance interviews outlined under Principle 6 shows that individual analysts do not feel under pressure regarding the preparation of reports for companies on the conflicts list.

Other Companies/ consultants subscribers of the IVIS

We also have a small number of corporate clients who subscribe to the service either through their HR team or the Company Secretary office. They use it as a way of tracking market trends and performing comparative analysis of remuneration.

As with UK-listed IA members, our mandate is to apply our rigorous process consistently and we therefore continue to strictly adhere to our Guidelines. Corporate subscribers have neither sought, nor received, any advantage over their peers. We consider the number of these clients and the revenue they generate to be immaterial to IVIS.

Personal conflicts of IVIS employees

Situations giving rise to conflicts of interest may exist due to a member of the IVIS team (or a close family member) holding shares in a company which IVIS produces an IVIS report for, or due to a personal or close relationship with employees of such companies. IVIS and the IA require members of the IVIS team to alert their manager to any such potential personal conflicts of interest prior to the commencement of any research.

In such cases, analysts are removed from the preparation or checking of such IVIS reports or engagement with these companies. During 2020, there were two cases where individual analysts excused themselves from the preparation of an IVIS report due to potential personal conflict of interest. These cases were reported to the Head of IVIS and Director of Stewardship. In addition, there are three companies where Head of IVIS or Director of Stewardship have identified a personal conflict of interest and they have excused themselves from the reporting checking process. We have introduced new process to ensure that we are effectively recording these personal conflicts of interests.



Review process prior to the publication of IVIS reports

IVIS reports are subject to a review by a different member of the IVIS team prior to publication, in order to manage any conflict and ensure consistent adherence to the guidelines. Once a report has been prepared by an analyst, it is subject to a second check by another experienced analyst, the Head of IVIS or Director of Stewardship and Corporate Governance. In some cases, this will involve a second review or a discussion between members of the IVIS team on the appropriate colour top.

IVIS uses publicly available information and does not send draft reports to companies before publication (other than for confirming factual accuracy when we plan to issue a Red top). This helps to minimise bias and the risk of an analyst being put under pressure from companies or other advisors.

Consulting services

IVIS does not provide any paid for or bespoke governance consulting services to companies. However, we may engage with companies outside of the proxy season over matters such as remuneration or corporate governance in general. Such consultations are limited to providing companies with feedback on their proposals, based on our guidelines. IVIS and the IA do not receive any fee for these consultation exercises. During these engagements we do not guarantee a particular colour top or IVIS approach.

Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

The IA represents the investment management industry, which plays a pivotal role in the UK and international economy. Our key purpose is to make investment better for savers and investors, for companies and their employees, and for the economy. The IA works with its members, constantly seeking their views and taking action in areas which need addressing.

Our members are seeking to deliver long term returns and are therefore interested in promoting sustainable market environment. Among their main priorities is to ensure that companies in which they invest are run to generate long term returns for shareholders and ultimately savers. Members want to ensure that companies are well governed and are addressing material risks to their long-term health. This is a vital part of the investment process because companies that effectively manage these risks are more likely to deliver the best results for shareholders and savers.

The wider work of the IA seeks to address a range of market wide and systemic risks to promote a well-functioning market.

One of the IA's current initiatives to address market wide and systemic risks is calling on companies to address the impact of climate change. We are seeking all companies to identify the impact of climate change to their business, so that shareholders can understand the potential impact to the long-term value of the Company.



In 2020, the IA published [Shareholder Priorities for Listed Companies](#), which were updated in [2021](#) to reflect a updated approach. In this document members outline main priorities which are designed to reflect the fact that members adopt a holistic approach to stewardship, expecting companies to be cognisant of a wide range of material issues including environmental, social and governance issues which, when pro-actively and smartly managed, can lead to the long term returns investors and savers seek.

The Priorities outline four areas that our members asked us to prioritise to drive long term value:

- Responding to climate change - Companies should proactively identify and manage climate related risks and opportunities as managing them is critical for companies to minimise the negative impacts of climate change on their long-term value and to help realise the financial opportunity of a sustainable transition.
- Audit quality - A high quality audit, where the auditor challenges management's judgements and assertions, displays independence from management and exercises professional scepticism, supports robust financial information. This enables investors to make informed investment decisions and helps to identify any concerns about the long-term viability of a company.
- Stakeholder engagement - The relationship between a company and its key stakeholders (such as its employees, customers, suppliers, and the environment and communities it impacts) is an important determinant of its long-term value. A well-managed stakeholder relationship helps companies to build a more robust strategy and make more informed business decisions. Companies who do not treat their stakeholders appropriately are unlikely to enjoy success in the long term and may suffer reputational damage which will further hinder success.
- Diversity - Members consider diversity as a core and critical business issue that boards and leadership teams must address to secure their long-term success. Whilst this is a matter of fairness, there is evidence that more diverse boards make better long-term decisions, leading to more productive and sustainable businesses.

The document also explains how IVIS reports would reflect these issues and the intended colour top approach for companies not meeting member expectations.

Climate change

The IA called on all listed companies to explain in their annual report what impact climate change will have on their business and how the company is managing risks and pursuing opportunities, in line with the four pillars of the Task Force on Climate-related Financial Disclosures (governance, risk management, strategy, and metrics and targets).

In 2020, IVIS introduced a new section to its ESG report, highlighting to investors whether the company made climate change-related disclosures, through four questions aligned with the four pillars of TCFD. IVIS did not introduce a colour top approach, recognising that companies are on a journey to considering the impact of climate change on their business model and strategy.

Following the 2020 AGM season, we have reviewed disclosures provided by the FTSE 100 and have noted the following:



The number of companies in the FTSE 100 reporting against some aspect of TCFD more than doubled from 30 in 2019 to 77 in 2020.

The majority of companies disclosed against at least one pillar of TCFD and although only 53% disclosed against all four pillars, the number of disclosures against each pillar was largely encouraging:

- 69% of companies described their governance of climate related risks and opportunities.
- 70% of companies described the actual or potential impacts of climate related risks and how it assesses and manages them.
- 73% of companies explained how their strategy takes into account the impact of climate change.
- 80% of companies described climate change related metrics and targets.

However, the review concluded that the quality of disclosures could be improved.

For 2021, investors continue to expect all listed companies to report in line with TCFD. TCFD-aligned disclosures will be subject to a colour top approach for the first time for companies in high-risk sectors. IVIS will Amber top the ESG report of any company in a high-risk sector that does not address all four pillars of TCFD (Governance; Risk Management; Strategy; Metrics & Targets).

Additionally, IVIS will highlight further disclosures from companies through the following questions:

- Has the company identified a board director or board committee responsible for overseeing the company's approach to climate change?
- Does the company make specific reference to the impact of climate-related risks and opportunities on its approach to capital management?
- Has the company disclosed emission reduction targets and the timeframe for achieving these targets?
- Has the Company committed to align its business model/operations with the Paris Agreement explained how this will be achieved?

Accounting for Climate Change

Investors rely on the quality and reliability of the audited information companies report to the market when making investment decisions and holding company management and boards to account. Under existing accounting and audit requirements, material climate-related matters should be treated the same as any other material factor and incorporated in the financial statements and associated notes. These should reflect both the physical risks of climate change and the transition risks arising from interventions designed to align with the Paris Agreement and transition the economy to net zero-emissions. IA members expect companies to reflect climate-related matters in their annual report and accounts and should consider using the framework and educational guidance provided by the IASB and the Investor Expectations for Paris-aligned Accounts published by the Institutional Investors Group on Climate Change (IIGCC).



In 2021, IVIS will highlight to investors those FTSE All-Share companies that include a statement in their annual report and accounts that material climate-related matters have been incorporated by asking the following question:

- Has the Company provided a statement in the Annual Report and Accounts that the Directors have considered the relevance of material climate-related matters, including the risks of climate change and transition risks associated with the goals of the Paris Agreement, when preparing and signing off the company's accounts?

We believe that this IVIS approach will require companies to understand and report on the impact of climate change to their business before it becomes a Listing Requirement in 2022. This will require companies to start on the journey to reporting on the risks of climate change, which is needed for the company, their shareholders, and the wider economy. Particularly with the requirements on asset managers and asset owners to report on the impact of climate change on their portfolios.

The data above shows that in 2020, there is an increase in the number of FTSE 100 companies against the TCFD framework, our approach for 2021 is seeking to improve the quality of these disclosures. We believe focusing on TCFD reporting and supporting other guidance such as the IASB and IIGCC guidance gives companies a consistent message and single approach to reporting on climate change.

COVID

Prior to the COVID pandemic IVIS had not identified the risk of a global pandemic as a material issue which companies should be addressing in their disclosures. IVIS would only have captured those companies that had identified a pandemic as a material risk to their business in the normal approach of disclosing a company's principal risks. IVIS did not have any specific questions on the risk of pandemics.

We set out under Principle 1 how IVIS will consider the impact of COVID-19 within the IVIS report. In addition, we will focus on the approach which companies have taken to stakeholder engagement during the pandemic and met the growing expectations of investors, government, regulators, and other stakeholders. The COVID-19 pandemic has significantly impacted companies and their stakeholders. COVID-19 will be a common issue which all companies will have had to address in 2021. Investors will expect companies to make quality disclosures outlining the approach taken to engaging, communicating, and supporting the company's stakeholders during the disruption caused by the pandemic. Importantly this should include how the Board reflected the views of their stakeholders in key decision making. IVIS will highlight in which section of the report COVID19 related engagement disclosures have been made by companies.

The impact of the COVID pandemic will also impact on how we analyse companies during 2021 aside from the approaches outlined under Principle 1. In April 2020, the Pre-Emption Group (PEG) announced that shareholders should give companies flexibility to issue up to 20% of the issued share capital provided certain assurances were provided. These flexibilities meant that companies in need of additional capital were able to raise new capital from their shareholders very quickly, which reduced the risks associated with raising new capital. Between 1 March and 30 November 2020, 73 FTSE All-Share companies have raised over £22.19bn of additional capital through issuing new equity. IVIS would normally highlight the re-election of directors and pre-emption authorities for companies that had issued up to



19.99% of the issued share capital through a non-pre-emptive cashbox structure on a Red top. Following the flexibilities announced by the Pre-Emption Group, which the IA supported, IVIS will note the capital raised by the companies and providing that they met the assurances for the use of the PEG flexibilities will not highlight the capital raise on a Red top.

Principle 5 - Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

IVIS has two major groups of subscribers. The majority of IVIS subscribers are the IA members, who are the UK based global asset managers, and significant investors in UK listed companies. These clients are all institutional investors who invest on behalf of a range of institutional and retail clients. The other Group are company advisors, specifically remuneration consultants and legal advisors. We have a small number of listed companies as subscribers.

As set out in our response to Principle 1, IVIS has regular dialogue with its members, through the IA Committees, which meet every six weeks, and on an ad-hoc basis. We also have engagement with individual asset managers. With regard to company advisors, we have regular dialogue with them individually, so they can understand our approaches and expectations of companies. Through these conversations IVIS gets an understanding of the perspectives of companies on remuneration issues. As noted above, through the remuneration consultation process we have meetings with their clients which they sometimes attend and are able to hear our views. The IA also presents our views and expectations on a range of issues through our own webinars/events, at specific forums or events organised by other organisations or advisors. This allows us to present our views directly to advisors and companies. During 2020, we have participated in 12 speaking events to outline member expectations and the IVIS approach.

As explained above, the IA guidelines used by IVIS are approved by the IA members, including IVIS subscribers, and updates to the IVIS report and the colour top approach are also discussed by the Committees. Members can steer IVIS to focus on specific issues and also provide their feedback on effectiveness of the IVIS work and areas for improvement through these discussions or through direct feedback. One of the most recent examples of how we acted on member feedback is our rapid review of approach in response to the Covid-19 pandemic. Following the outbreak of the pandemic, the Stewardship Committee discussed the approach to support companies throughout the pandemic and fed back to IVIS what issues IVIS should focus on. IVIS reports were updated to include information in our reports where companies received government support, cancelled dividends, made changes to remuneration payments or raised capital. Our response to Principle 1 above, describes how we acted on member feedback in relation to alignment of executive pensions with the wider workforce as well as on diversity.

We also receive individual feedback, and we may act upon it when possible and where we believe it adds value. For example, prior to crystallisation of guidance on audit quality, IVIS included additional questions relating to audit and accountability, based on individual feedback from members. This approach to reviewing feedback from clients and members, is very helpful as it is direct and specific, it is usually in a forum which allows us to discuss and



calibrate the differing member views to arrive at a consensus approach which represents member views. This is confirmed through the IA committee process. We continue to evaluate and refine the approach we take discussing the IVIS guidelines and approach with members and the Committees to ensure that we get the most out of these discussions and focus on the most material issues which need to be addressed.

Principle 6 - Signatories review their policies and assure their processes.

We endeavour to summarise complex matters in an easy to read, concise form, while at the same time making sure our view is balanced and includes the rationale from companies we analyse.

As set out in our response to Principle 1, the policies, and approaches which IVIS uphold are determined and updated following discussions with IA members through our Stewardship and Remuneration and Share Schemes Committees to ensure that they meet member and subscriber stewardship approaches and expectations. The IA Principles of Remuneration are reviewed annually and published alongside a letter to Remuneration Committee Chairs each November. We published our Shareholder Priorities for 2020 and 2021 in January 2020 and 2021, respectively. Other guidance and expectations are reviewed by members but not necessarily updated annually. As noted with our response to COVID, we responded to subscriber needs to update our reports to ensure that they were useful to shareholders at a time when dividends were being suspended/withdrawn.

As outlined in Principle 2, the IVIS approach to the report writing and checking processes deliver high quality reports which are factually accurate and consistently highlight matters against our guidelines or expectations and best practice. We also send reports to the companies we analyse (either prior to publication, in case of a Red top, or post publication in other cases, other than investment trusts). Companies are encouraged to highlight any factual inaccuracies, comments or further information which may be helpful, and we update our reports if any factual errors exist, or a company has provided additional rationale or clarification, subject to the company confirming that such information can be included in the IVIS report. This feedback gives us an indication of quality of our research and if there are any particular issues with our report writing process or the quality of individual analyst's approach. In addition, company advisors, who also subscribe to IVIS would review the reports and may challenge our assessment. This may lead to a further review and engagement to obtain clarifications, which serves as another means of assessing the quality and accuracy of our reports.

In addition, we have a proactive subscriber base who will provide feedback on the IVIS colour tops or the assessments we make. This allows us to assess whether we are meeting subscriber expectations and whether our approach needs to change or be updated. This will often lead to discussions with the appropriate Committee to see if our approach needs to be amended.

We believe that feedback from our subscribers and companies we analyse, combined with the culture of dialogue and multiple report checking layers ensures fairness and balance of the report as well as their accuracy and understandability.

The remuneration consultations processes are reviewed by the Remuneration and Share Schemes Committee. At each Committee session, members review IVIS summaries, provide



feedback and discuss concerns. The Committee also makes proposals on how to improve the process and has recently made suggestions aimed at improving communication, which we are in the process of implementing in 2021.

During the year, we have created internal process documents to ensure that the team members are taking a consistent approach to the key IVIS processes, these include:

- Report writing.
- Remuneration consultations.
- Colour top approach; and
- Analyst training.

Assurance Process

Given the size of the organisation, we do not believe that an external assurance process would be proportionate. The IA does not have an internal audit function. Instead, we have developed an internal assurance process which is led by the Deputy CEO, supported by the Internal Counsel. As part of this internal review, they interviewed IVIS analysts, the interviews focused on:

- The IVIS processes – is the analyst aware of the IVIS processes and have they had adequate training?
- Conflicts of interest – including the management of personal conflicts and if individual analysts have felt under pressure regarding the approach to companies on the conflicts list.
- Engagement and dialogue with companies – exploring how the engagement with companies is working including whether the analysts feel under undue pressure to change the report or approach following engagement. Including if they are well supported by their managers in these engagements.
- Decisions on colour tops – do analysts feel that there is appropriate discussion and individual analysts have input into the colour top and the key conclusions of the report?
- Remuneration Consultation process - Is the remuneration consultation process with companies working and are we able to give sufficient information to companies on the approach which IVIS will take on the proposals?
- Conclusion - Are the processes working and covering all elements of IVIS and are there any ways that the IVIS processes could be improved?

Outcomes of the interviews

Two interviewees were chosen at random from existing employees who worked as IVIS analysts during the 2020 AGM season. The selection of the interviewees was conducted under the supervision of the IA's counsel from Cleveland & Co. The Deputy CEO conducted the interviews, with counsel observing.

- Both interviewees were aware of the IVIS process documentation and both had received training on it.
- Neither interviewee felt under any pressure due to conflicts of interest.
- Both interviewees said that the engagement process was valid and fit for purpose. Neither felt under any undue pressure and both felt issues could be escalated in the



appropriate manner and that any such issues would be handled supportively and professionally. One interviewee said that in a very small number of cases, there was some natural embarrassment at discussing the remuneration with a Company Secretary whose remuneration was the subject of the consultation, but this did not affect the output in any way.

- Both interviewees felt that decisions on colour tops were appropriately deliberated upon, that they had the correct amount of input and there was no undue pressure applied.
- One interviewee was very familiar with the remuneration consultation process and said that issues and information was flagged to companies in a comprehensive and timely manner. The other interviewee has less experience with them, but had no reservations about the process.
- Both interviewees stated that they believed the IVIS approach and processes were fair and worked in their experience of them. Neither had any recommendations for improvement. Both were offered the opportunity to make any further relevant comments or observations but neither mentioned anything further.

Following this review of processes, the remuneration consultation process documents were updated to reflect the position which should be taken when engaging with a director of the company who is a recipient of the remuneration being discussed. In such cases, IVIS will seek for dialogue to be directly with the Remuneration Committee chair or another company employee so that engagement is not with the recipient of the remuneration. As part of this update, the Director of Stewardship will confirm within six months of the review that the processes have been updated and implemented.

The findings of this review will be presented to the IA Finance, Audit and Risk Committee. This is the first year, in which IVIS has had such an assurance process in place, IVIS will consider how the approach can evolve for 2021.

Fair, Balanced and Understandable

Through this stewardship report, IVIS have fairly reflected the approach IVIS and the IA take to developing the IA guidelines and the IVIS approach to implement the guidelines. We have identified areas where we are developing our approaches, challenges we are seeking to address such as the balance of colour tops, or need to change approach as a result of member or company feedback. IVIS believe that identifying the areas of continued improvement helps to demonstrate that the report is fair, balanced and understandable.