MAJEDIE
Asset Management

Financial Reporting Council Consulting on a revised UK Corporate Governance Code and Stewardship Code: Majedie Asset Management Response

1. Do you have any concerns in relation to the proposed Code application date?

No.

2. Do you have any comments on the revised Guidance?

We welcome the continuation of the principles of comply or explain as we support companies and investors taking the opportunity to explain their approach rather than merely provide box-ticking returns. The new emphasis on companies' explanation of how the Principles have been applied and the outcomes is also helpful. We also broadly welcome both the progress since the original code was introduced and the further progress which is encouraged by the revised Guidance.

3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?

A method to gather the views of the workforce is to be welcomed, however companies should be allowed some flexibility as to which one they adopt – it may be that for some companies none of the three suggested methods are appropriate. Once completed, we think it should be made clear whether those views are acted upon and what the outcome was. We note the use of the term 'workforce' to include a wide definition of employed staff which, in view of the rise of the gig economy, makes social sense to us.

4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?

The Code's recognition of companies' responsibilities to wider society could form an important element of improving trust in business. It makes sense for such initiatives to be seen as part of companies' overall environmental, social and governance (ESG) reporting and for the Code and the Guidance to refer explicitly to them. While the increased interest in ESG is to be welcomed, the proliferation of initiatives can be confusing. Acknowledging the major ones which companies are adopting – particularly the UN SDGs – would be helpful.

5. Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?

We agree that 20% constitutes a widely accepted threshold; we note the Investment Association's introduction of a Public Register and its use of the 20% threshold.

6. Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years? If not, please provide information relating to the potential costs and other burdens involved.

We believe smaller companies should have flexibility in the composition of their boards. Board evaluations have been shown to improve governance so, if they are not unduly onerous, we think this could be useful, however depending on how extensive, we believe they should only be conducted every five years rather than every three years for smaller companies.

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7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?

We agree with this time period as a maximum.

8. Do you agree that it is not necessary to provide for a maximum period of tenure?

We believe it is important for boards and shareholders to retain some flexibility in determining the length of a director's tenure, but research tends to show that after eight years detachment is reduced and challenge of the executive team becomes less regular.

9. Do you agree that the overall changes proposed in Section 3 of the revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?

These are positive changes which should help the process of enabling diversity at these levels. It is important, however, that companies select the most appropriate candidate for the role, and not feel pressure simply to improve their diversity optics.

10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relating to the potential costs and other burdens involved.

We support improvement in diversity on boards and in the senior echelons of companies. However, we look for some flexibility for smaller company boards.

11. What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.

We encourage companies to report gender and ethnicity data. However, in terms of diversity we would also encourage consideration of social background, which is much less visible than gender or ethnic origin but as significant in terms of cognitive diversity.

12. Do you agree with retaining the requirements included in the current Code, even though there is some duplication with the Listing Rules, the Disclosure and Transparency Rules or Companies Act?

For the sake of clarity, this seems sensible.

13. Do you support the removal to the Guidance of the requirement currently retained in C.3.3 of the current Code? If not, please give reasons.

We support the removal if the FRC judges the terms of reference are more suitably placed in the Guidance. We hope that companies would not see this as reducing the importance of reporting on the long-term viability of their business when the reverse should be true.

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14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?

We welcome a board's capacity to override remuneration outcomes that were inappropriate. Remuneration committees could, as the consultation documents suggests, usefully delegate some aspects of their expanded role to other committees at their discretion, so they can focus on remuneration. Our reservation is that boards report increasing difficulty in recruiting directors to the remuneration committee, particularly the role of chair. For smaller companies some of these new responsibilities will make these roles even more onerous and potentially less appealing, even if they support the direction of travel. Therefore, we have some concerns about how these changes would be implemented, while supporting the underlying ethos.

15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?

We suggest stipulating that executives should own their company's shares, approximately 400-500% as a proportion of their salary, to be built up over time in the case of smaller companies. The bar to increasing pay in excess of general employee pay should be seen to be high, expecting remuneration committees to be mindful of the increase in CEO:employee pay ratio in the last 20 years. We would like to see evidence of how the board considers their strategic plans will deliver beyond the tenure of the current leadership.

16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?

They have the potential to do so. However, the test will be the willingness of stakeholders, particularly investors, to maintain the pressure on boards to improve all aspects of ESG.

Stewardship Code

17. Should the Stewardship Code be more explicit about the expectations of those investing directly or indirectly and those advising them? Would separate codes or enhanced separate guidance for different categories of the investment chain help drive best practice?

For simplicity, we believe it is desirable to retain one stewardship code. Clearer guidelines for different types of market participant would, however, be helpful but within an overarching stewardship theme, so different stakeholders could be seen as part of the same chain.

18. **Should the Stewardship Code focus on best practice expectations using a more traditional 'comply or explain' format? If so, are there any areas in which this would not be appropriate? How might we go about determining what best practice is?**

Best practice guidelines would provide clarity, and a 'comply or explain' format would provide flexibility. Speaking to asset managers who clearly engage with their investee companies would be a good method of knowledge gathering.

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19. Are there alternative ways in which the FRC could highlight best practice reporting other than the tiering exercise as it was undertaken in 2016?

The tiering exercise is simple to understand for all participants. Best practice can be helpful to share but we note that the UNPRI have not introduced the leadership board they were previously considering, so creating a select group is not without complications in its administration. Best practice – and changes in behaviour – may be better shared in seminars and workshops, rather than by publishing lists.

20. Are there elements of the revised UK Corporate Governance Code that we should mirror in the Stewardship Code?

The inclusion of ESG into the Stewardship Code should cover the UK Corporate Governance Code's amendments on culture and diversity.

21. How could an investor's role in building a company's long-term success be further encouraged through the Stewardship Code?

The Code already provides many useful pointers for investors. We consider that a concise Code is more likely to be influential than a more extended version.

22. Would it be appropriate to incorporate 'wider stakeholders' into the areas of suggested focus for monitoring and engagement by investors? Should the Stewardship Code more explicitly refer to ESG factors and broader social impact? If so, how should these be integrated and are there any specific areas of focus that should be addressed?

We support the inclusion of ESG and potentially social impact into the Code but in a broad sense. Investors may be on very different points on the ESG spectrum and too much precision might reduce support from those at an early stage.

23. How can the Stewardship Code encourage reporting on the way in which stewardship activities have been carried out? Are there ways in which the FRC or others could encourage this reporting, even if the encouragement falls outside of the Stewardship Code?

Client demand is driving the reporting of stewardship work and may be the best arbiter of what is needed. There is a potential downside in the FRC becoming overstretched, underdelivering and losing its essential tenet of 'comply or explain'. We also believe that quietly rigorous engagement with companies away from a public forum can often achieve more than public grandstanding.

24. How could the Stewardship Code take account of some investors' wider view of responsible investment?

The Code already expects investors to be responsible owners. The proposed changes have the potential to raise the standard of stewardship further, but it is difficult to provide for a very wide spectrum of views. Investors have the option to show a more robust version and explain that they are working to a different standard, if they so wish.

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25. Are there elements of international stewardship codes that should be included in the Stewardship Code?

The International Corporate Governance Network's Global Governance Principles and Global Stewardship Principles contain many similar elements, so in a sense are already factored in to the Code. The Institutional Investors Group on Climate Change has a specific mandate so would not sit easily with the Stewardship Code as presently constituted. Similarly, the Asset Owners Disclosure Project, which has worked extensively with another specific and highly influential global group, the Taskforce on Climate Change Disclosure, seeks to improve assessment of climate change risk and the consequent allocation of capital. Therefore, while we see international governance codes as aligned with and – in some cases borrowing best practice from – the Code, we do not think codes which define stewardship more widely sit well within this framework.

26. What role should independent assurance play in revisions to the Stewardship Code? Are there ways in which independent assurance could be made more useful and effective?

We do not see this as necessarily achieving the goal of independent scrutiny. While it may be useful for large asset managers with complex business models, it will not be equally helpful for all. Clients need to be confident that assurance is indeed independent; an engaged client can potentially achieve greater behaviour change than an external consultant under pressure to be retained in future years.

27. Would it be appropriate for the Stewardship Code to support disclosure of the approach to directed voting in pooled funds?

Many pooled fund managers already supply this information. The trend is towards greater disclosure, supported by the requirements of becoming a signatory to the UNPRI.

28. Should board and executive pipeline diversity be included as an explicit expectation of investor engagement?

While we welcome greater board and executive pipeline diversity, we believe investors should have the flexibility to engage as they see fit, rather than have engagement prescribed for them.

29. Should the Stewardship Code explicitly request that investors give consideration to company performance and reporting on adapting to climate change?

As mentioned above, there are already a number of codes and affiliations making these requirements. We believe it is useful for this Code to keep its distinctive focus, rather than dilute its impact.

30. Should signatories to the Stewardship Code define the purpose of stewardship with respect to the role of their organisation and specific investment or other activities?

Yes, we think this would provide helpful clarity.

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31. Should the Stewardship Code require asset managers to disclose a fund's purpose and its specific approach to stewardship, and report against these approaches at a fund level? How might this best be achieved?

At present the Code requires a firmwide not a fund-specific response. Setting out a stewardship approach fund by fund may be impractical, given the volume of funds some asset managers run. Furthermore, at Majedie, we operate as 'one investment team', therefore we take an overarching approach to stewardship, rather than tying varying approaches to a particular fund. However, given the vast array of funds on offer, clients have the option of finding a fund which is most closely aligned with their wider investment goals.