BREWIN DOLPHIN

Corporate Governance and Stewardship
Financial Reporting Council
8th Floor
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29 March 2019

Dear Sirs

January 2019 Consultation: Proposed Revision to the UK Stewardship Code

We are grateful for the opportunity to respond to the above consultation regarding the FRC's proposed revisions to the Code

Background

Brewin Dolphin (BD) is one of the UK's leading independent providers of discretionary wealth management. We offer award-winning personalised wealth management services that meet the varied needs of over 100,000 account holders, including individuals, family companies and trusts, charities, and pension funds.

We specialise in helping clients protect and grow their wealth by creating financial plans and investment portfolios that meet personal and professional ambitions and aspirations. Our services range from bespoke, discretionary investment management to retirement planning and tax-efficient investing. Our focus on discretionary investment management has led to significant growth in client funds and we now manage approximately £36 billion of client funds on a discretionary basis.

In line with the premium we place on personal relationships, we have built a network of 29 offices across the UK, Channel Islands and Ireland, staffed by qualified investment managers and financial planners. We are committed to the most exacting standards of client service, with long-term thinking and absolute focus on our clients' needs at the core.

We actively support the Financial Reporting Council's work on stewardship and signed up to their UK Stewardship Code in 2011. We are currently a Tier 1 signatory and broadly welcome the revisions to the Code proposed in January 2019 (Proposed Revision to the UK Stewardship Code). We do, however, share many of the concerns raised by the Investment Association (IA) regarding how specific elements have been drafted or could be interpreted. Rather than broadly reiterate the IA's position in this response, we have referred to those aspects with most relevance to us and commented further on aspects not covered, or not covered in sufficient detail.

Roles and responsibilities within the Investment community

At outset it would be prudent to highlight a major concern with the proposed revisions. Whilst Brewin Dolphin are committed to performing the role of responsible stewards of our clients' assets, the wealth management model does not naturally lend itself to the distinction of roles which are a focus of many of the revisions to stewardship obligations. It is assumed, for example, that institutional assets will have an underlying beneficiary, an institutional asset owner and an asset manager with obligations attributed to each. Depending on the service or proposition BD may perform or share some of the functions assumed to come with asset ownership (e.g. manager selection) but at the same time some of these may remain with the beneficiary (our mandate from them is established through our suitability process, but even when using third party asset managers, we do not issue mandates on their behalf as we are generally restricted to tradeable securities and pre-existing retail funds). As always there are exceptions to every generalisation and nuances to certain services but, in broad terms, we would perform some, but not all, of the roles traditionally associated with asset ownership and asset management on behalf of our clients.

Materiality and proportionality

In addition, whilst we agree that signatories should use the resources, rights and influence available to them to exercise stewardship irrespective of how the capital is invested (across asset classes) we consider effective stewardship to be a matter of materiality and proportionality. In other words, exercising stewardship (and the resource devoted to this) should be allocated in the most effective and productive way possible to achieve positive outcomes for the underlying beneficiaries and more widely the economy and society as a whole.

In BD's case, whilst the majority of our FUM is focused in assets covered by its Research Analysts, BD holds a 'long investment tail' (some 11,000 lines often in relatively small amounts) and it would be impractical and not productive for it to attempt to exert or demonstrate stewardship across its entire nominee of holdings. Where BD, on behalf of its clients, has material holdings (or where, as a member of an industry body, it can influence in collaboration with others) it will look to exercise proportionate stewardship irrespective of how this capital is invested. BD will, on a regular basis, report on what action it took and any positive outcomes which have ensued.

BD broadly agree that the core areas of stewardship responsibilities are covered and in sufficient strength. We do, however, share the IA's concerns regarding the proposed new definition of stewardship and the potential conflict, if given equal weighting, between a signatory's fiduciary duty to beneficiaries and its responsibilities to the economy and society. BD fully appreciates the need to recognise that good stewardship leads to wider societal and economic benefits but views the delivery of these benefits as part of our service to beneficiaries, rather than a stakeholder of equal footing. Diluting the primacy of responsibility to clients would seem a backward step rather than the advance which is intended.

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Other than these key concerns, BD considers the following Provisions (and the IA's response on these Provisions) to be of most material significance to it.

Principle F is written too stringently. As this is an apply and explain requirement and, given the breadth of our potential investments and the high number of individual client considerations, to actively demonstrate how prospective and current investments are aligned with our stewardship approach, this could be interpreted as a very intensive task. Demonstrating how our stewardship approach impacts our investment decisions would seem a more proportionate response.

Provision 11: As stated above (under 'roles and responsibilities') it is common for BD to receive a mandate from its clients, but not to issue a stewardship mandate on behalf of beneficiary's, when fulfilling our role as the 'asset owner.' We also concur with the IA that demonstrating how BD takes *'material'* ESG issues into account is a more practical and consistent with Principle E. Again, BD would highlight that, to allocate resource and exercise stewardship most effectively, demonstrable action is likely to be concentrated on material holdings (where BD is able to exert influence on its own or in collaboration with others). BD understand the need to take ESG issues into account when using third party managed products but ask the provisions to recognise that generally it would be through due diligence rather than in the form of a customised mandate.

Provision 25: BD broadly agrees with the IA's concerns regarding the lack of a clear delineation in the roles and responsibilities of asset owners and asset managers and how this can differ, or be nuanced, depending on the proposition. In some cases, the capacity to exercise voting rights may be limited by the investment structure or underlying contractual arrangements (this is particularly pertinent to our fund propositions).

In general, however, BD is both supportive of the direction of travel and with the 'spirit' of the new Code. In particular, the increased focus of engagement and collaboration; promotion of greater transparency; enhanced reporting (via the new Activities and Outcomes report) and the prominence of ESG.

We do, however, as mentioned previously share many of the IA's concerns around some of the wording; the blurring of responsibilities between parties and a seeming inflexibility to cope with the diverse business models and propositions in the market.

Please let us know if you have any queries, require clarification regarding our position or if we can be of any further assistance.

Yours faithfully

[redacted]

pp Robin Beer
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